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Interim Report of the Working Group on Customer Service in Banks—Part II 3

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The views expressed in the State Bank of India Monthly Review are not necessarily those of the State Bank of India or the Associates of the State Bank of India.

54. Salaries and other payments of government employees should be staggered department-wise, instead of effecting all payments only on the 1st of every month. These payments may be spread over the last/first seven days of every month.

55. Great difficulty is presently experienced by government pensioners whose number is very large. The old pensioners, often poor and sick, have often to wait in the open for hours, firstly for getting their bills passed and, thereafter, for securing payment thereof, mostly involving paltry sums. We suggest introduction of self-identifying cheques, on the lines of travellers cheques, drawn by treasury and encashable at all local offices of public sector banks. Reimbursement, which even in the aggregate, would be for a small amount, should be obtained by paying banks next day from treasury, if they do not conduct government business.

A further improvement would be for treasury to remit pension proceeds direct to designated bank for credit to pensioner's account. It would be desirable to do away with pension bills altogether. The Working Group will explore this further in consultation with the appropriate government authorities.

(E) DISCIPLINE AND ATTITUDES

The single most important factor affecting the quality of customer service is attitude of staff of all categories towards their work and towards customers. Attitude, in turn, is dependent upon multiple factors of a complex nature, not always easily controllable; the reward and punishment systems, the surrounding socio-political climate, opportunities for excellence in performance and realisation of individual aspirations in the work situation, job knowledge, fulfilment of recognition and ego needs, etc. are some of the more important factors influencing employee attitudes.

The starting point, nevertheless, is enforcement of infrastructural discipline at all levels. Without this,

all efforts at motivation and bringing about the right attitude alround will bear no fruit.

56. Punctuality and a 'full day's' work must be enforced and strict action taken against all errant employees who are found to be habitually coming late or leaving early, loitering or gossiping during work hours, slovenly in work out-put, etc.

57. Every employee's lunch recess should be specifically decided and adhered to. The lunch recess should be so fixed and allocation of work so arranged that work at any counter does not suffer, but, at the same time, it also does not inconvenience the employee.

58. Personal telephone calls on office lines should be discouraged, and, at bigger offices, monitored. Similarly, personal visitors for employees should be discouraged.

The behaviour patterns mentioned in recommendations Nos. 56, 57 and 58 cause dislocation and distraction resulting in indifferent customer service.

59. Rules regarding sanction of leave of all types must be observed meticulously.

Indiscriminate use of leave facility by employees and acquiescence thereto cause sudden problems of redistribution of workload on an emergent basis and this results, in many instances, in inadequate attention and poor service to customers.

60. Business hours should be increased to $4\frac{1}{2}$ hours uniformly at all banking offices on weekdays (other than Saturdays). Saturdays should be made 'non-business' working days for all employees. At small and rural offices there are usually no arrears of work, and Saturdays should be used mainly for business development, customer contacts, loan recoveries, etc. At larger offices, while some members of staff may be drafted on Saturdays for clearance of arrears, balancing of books, house-keeping, submission of statistical returns, etc., others should be

utilised for developmental activities, customer contacts, loan recoveries, etc. Cash department staff should also be freely and fully utilised on Saturdays for the purposes mentioned, in addition to clearance of arrears of cash work, if any. Wherever possible, this day could also be utilised for in-house training for staff members.

Loss of business hours (2 hours) to customers on account of Saturday being made 'non-business' working day is sought to be compensated by increasing business hours on weekdays ($2\frac{1}{2}$ hours in the aggregate).

Extensive and speedy branch expansion undertaken by banks has resulted in inexperienced employees being called upon to man new branches with consequential deterioration in maintenance standards. Indifferent housekeeping results in indifferent customer service caused by unbalanced books, non-availability of records, etc. Also, arrears generate attitudes detrimental to the health of a unit with obvious repercussions on customer service.

The developmental work suggested for Saturdays will give employees the much needed exposure to society, inculcate participative responsibility and simultaneously go to make banks better servants of the community. Non-business working Saturdays will also facilitate improving job knowledge of employees.

61. Staggering of working hours should be introduced wherever this would result in better customer service and expeditious flow of work. Illustratively, working hours of employees dealing with inward and outward mail, statements of accounts, clearing, etc., should be staggered as required by demands of good customer service.

62. Unhealthy work practices or behavioural patterns which have crept into functioning of banks must be identified and eradicated.

63. A record of errors and lapses in work committed by employees of all categories should be maintained in a

suitable form; this record should be given due weightage in performance appraisal of employees, and stern action should be initiated against all employees given to committing frequent errors/lapses or following unhealthy work practices or behavioural patterns adversely affecting service rendered to customers.

This step, apart from being a part of infrastructural discipline, will prompt employees to discharge their duties with a greater degree of accuracy.

64. Promotion policies of banks should take into account performance of employees in the field of customer service—lapses and errors committed, complaints received and good work done all should have due weightage.

65. The present disciplinary procedures, while adequate in the overall, prove extremely tardy and time-consuming even in matters of elementary discipline like punctual attendance. To take care of this, every branch manager/head of office should be made disciplinary authority in respect of minor misconduct, if he is already not one.

This is essential for re-establishing the authority of branch manager for enforcing elementary discipline and creating an atmosphere of responsibility in office.

66. Immediate attention should be paid to proper work distribution and workflow at all offices, so as to ensure that every employee has a 'full day's' work and that the work is carried out expeditiously as a group activity. Employees should be rotated from desk to desk periodically and regularly. Linkage of seniority to allocation of work should be consciously and effectively snapped—it being allotted to employees on the basis of their suitability and aptitude. Bank managements too have, over the years, allowed water-tight compartments to emerge between various categories of staff obstructing their mobility and full utilisation so essential for optimum performance of a unit. These walls should be broken decisively and effectively on an urgent basis.

The steps suggested will expedite handling of work

and will give opportunity to more and more employees to learn diverse types of work resulting in their greater utility for customers.

67. Junior employees should be associated, wherever possible, in discussions with customers and inspection and other business visits, with the objective of developing communication and familiarisation between them and customers.

One important reason for the present indifferent and casual customer service is that most bank employees do not know customers as living human beings, and render service as a mechanical routine. Creating human interest, as suggested, will certainly lead to better customer service, besides its desirable educational implications.

68. All employees should be supplied with name-plates for use by them either on their apparel or at their counters/desks/tables.

This will give them a measure of identity and will help customers in knowing them by name.

69. Particularly low morale is visible in cash departments. This may be largely due to highly routine and repetitive character of work performed by cashiers. Unfortunately, there is no escape from this drudgery. Three solutions could be suggested:

(i) free transfer to clerical department be made available to cashiers without loss of seniority for promotional opportunities, (ii) greater resort be had to recruitment of cashiers-cum-clerks, and (iii) cash department may be made the entry point for all clerical recruitment in banks. One or more of these may be employed with advantage.

Customer service rendered by cash departments is particularly adversely affected by low morale, drudgery and lack of growth opportunities. Our suggestions will not solve the problem of drudgery, but will, at least partially, reduce its impact.

70. An excellent way of motivating staff is the idea of

self-supervision. It is often irritating and unproductive to have routine work checked by officials. Much of the checking done of routine work is often perfunctory and its very existence reduces the sense of responsibility of the original worker, and makes it difficult to fix accountability. Self-supervision idea can be easily introduced, to begin with in many areas affecting customer service like despatch work, authenticating statements of accounts and passbooks, as already recommended, calculation of interest, say, up to Rs. 500/-, translation of correspondence, cheques, etc., from regional language into English, etc. Indeed, teller system itself is an exercise in self-supervision and its beneficial effects are there for all to see. Each bank should explore what would be suitable and desirable in its case, introducing, wherever necessary, sample or random checking.

At the cost of repetition, we would like to state that staff motivation is crucial to customer service. Our suggestion will go to improve the sense of involvement of staff.

The time of officials concerned saved consequentially can be utilised for promotional activities and customer attention.

71. Branch manager's ability and effectiveness is a critical factor in good customer service. Every effort must, therefore, be made to improve these qualities by giving due importance to branch manager, by training him for leadership, decision making, etc., and gradually increasing his discretionary powers. Use of discretionary authority by branch manager—indeed every official and employee—should be taken into account in performance appraisal. People must be encouraged and compelled to use discretionary powers.

Delays in handling customer transactions and requests are often caused by inadequate powers of dealing employees, and compounded by their hesitation or reluctance to use even the available discretionary powers.

It may incidentally be mentioned that proper use of

discretionary authority is facilitated by suitable education and good internal vigilance system.

72. Training programmes of banks should lay special emphasis on customer service and other related issues like importance of courtesy and promptitude, public relations skills, telephone manners, functionally effective correspondence, management of complaints, etc., in addition to imparting job knowledge. A proper 'initiation' programme must be an essential feature of all training for new recruits. Similarly, branch level and desk level induction must be arranged for all new employees. In addition to formal training, informal counselling at frequent intervals, individually and in groups, by superior/ senior employees would be of considerable help; such counselling should not be resorted to only for erring employees, but should be an on-going activity for the benefit of all employees. At larger offices, this responsibility should be specifically entrusted to a suitable officer.

Training, formal and informal both, is recognised as a stimulant to improving abilities and attitudes of men. Although banks do have training programmes of their own, we are not too sure whether the important subject of customer service, in all its ramifications, is adequately taken care of.

73. Training programmes for officials should also include training in office administration, house-keeping, etc.

This will help turn out more capable officials and branch managers who will also be better administrators and will be able to ensure better customer service at their offices.

74. Every employee should be supplied with a hand-book of general information regarding his bank, and services and schemes offered by it. It may also contain a total perspective of the banking industry. This publication should be brought out in regional languages also and updated annually. This handbook should be given to

new employees by branch manager himself in a brief interview.

It has been realised that better informed employees are better workers.

75. Periodical meetings with the staff, in convenient and manageable groups, should be held at all offices to discuss matters relating to customer service and the ways and means of improving it. Repeated guidance and instructions on courteous customer service and promptitude, importance of every single employee in the total spectrum of good banking service, helpful handling of complaint situations, etc., are vital in bringing about and maintaining the right degree of office efficiency and customer service.

We enclose two model brochures, Annexures II and III, dealing with the importance of each employee in a total situation and handling of complaints respectively. Pamphlets on similar lines, with suitable illustrations, may be periodically distributed amongst all employees on these and other subjects.

76. Employees should be encouraged to participate in local activities and integrate themselves with the local community.

The resultant involvement and exposure will be beneficial in improving the responsiveness and responsibility of employees with healthy effects on the quality of customer service.

(F) GENERAL

77. Like business development and profitability, customer service too must constantly be projected by banks as a 'priority' objective.

78. Each office must have an enquiry counter at the entrance attended to at all times by a knowledgeable employee. At bigger offices, this should be an entirely separate counter.

79. Indicator boards should be displayed at all the counters in English as well as in the regional language. It must

always be ensured that there is correspondence between the indicator board and the actual work being transacted at each counter.

80. Business posters at semi-urban and rural branches should be in the regional language.

81. Lay-out of every office should be functional and designed or arranged to facilitate smooth and speedy flow of work. At bigger offices, lay-out and work-flow studies should be carried out periodically. Basic amenities for customers should be provided at all offices.

Scientific lay-out helps speedy clearance of work.

Complaints are often voiced by customers for lack of even ordinary and basic amenities—indeed, where customer transactions are delayed, the least that should be done is to make the waiting time comfortable and take the edge out of complaints.

82. All outward mail must be despatched from the office on the day it originates, excepting items received late in the day in which case these must be despatched latest by the next day.

Expeditious movement of mail is essential and, for this purpose, we have already recommended staggering of working hours of employees concerned wherever necessary.

83. Courier service should be introduced on a larger scale by banks for movement of mail between nearby centres having large transactions between them (like Bombay-Poona, Ahmedabad-Baroda, Delhi-Faridabad, Delhi-Chandigarh, Madras-Bangalore, Indore-Bhopal, Calcutta-Asansol, Lucknow-Kanpur, Allahabad-Varanasi, etc.).

Arrangements for speedy clearance of mail between the metropolitan cities of Bombay, Delhi, Madras and Calcutta and some other centres as well already exist.

84. Business hours of each office should be displayed outside the office premises near the main entrance.

85. At urban centres, a late-counter or a special box should be provided for receiving instruments, etc., after the usual business hours, for putting through the next day.

86. At rural centres, business hours should be fixed taking into account the requirements of the local population. Similarly, at these centres, banks should remain open on the weekly 'market day' and transact business for $4\frac{1}{2}$ hours even if it happens to be Sunday (or, Saturday—see recommendation No. 60). Appropriate adjustments should be made on other weekdays. A suitable provision should be made for this purpose in the Negotiable Instruments Act.

87. Use of ball pens should be freely permitted in transacting business with banks.

88. At larger offices, roving officials should be posted during business hours to supervise flow of work, employee responses to customers, etc., and also for helping customers in putting through their transactions expeditiously. All branch managers should frequently move about in the banking hall for the same purpose.

89. A complaint/suggestion box should be provided at a prominent place at each office. Near the box, blank slips, serially numbered, should be made available which should also provide for name and address of customer and details of complaint or suggestion. All complaints/suggestions must be immediately acknowledged and dealt with expeditiously.

90. A complaint/suggestion register must be maintained at each office for recording complaints/suggestions received from customers (direct or through the box mentioned in the preceding recommendation) and disposal thereof. This register should be scrutinised by branch manager for investigating the complaints, redressing them, fixing responsibility and taking steps to prevent similar complaints from arising in future as well as for considering the suggestions made. Every month the customer service committee (see recommendation No. 93) also should examine

complaints/suggestions made and discuss the action taken/to be taken. Inspecting officials should also peruse and comment upon the entries in this register in their reports.

91. At every office, a prominent notice should be displayed requesting customers to meet branch manager in case their difficulties or grievances remain unredressed, as also to make use of complaint/suggestion box provided.

92. Visiting higher officials from controlling offices should assess the quality of service rendered at the branch to customers. They must peruse the complaint/suggestion register, and give counsel to employees at branches. They must also meet a few customers and discuss with them matters concerning customer service.

93. Each branch must set up a customer service committee comprising branch manager and representatives of all categories of staff to overview the quality of customer service dispensed by the branch. It should also encourage staff members to come up with suggestions for improvement in customer service. The committee must meet at least once a month to study complaints/suggestions, cases of delay and other difficulties faced and reported by customers or as perceived by committee members and evolve ways and means of improving service. Minutes of the meetings should be maintained, and an annual report should be submitted to the customer service department (see recommendation No. 96)/controlling authority.

94. Each branch should undertake a customer relations programme by meeting customers in a group at least once every quarter. Invitees for such meetings should be carefully selected to ensure a proper mix and sample of customers from different business segments. Such meetings should be attended by concerned staff members as well.

95. An annual sample survey of customer responses should be carried out in a properly structured manner by every bank on an on-going basis. This could be done in lean season, say, July/August. The objective should be

to ascertain level of customer satisfaction, arrange for re-examination of systems and procedures, wherever called for and initiate measures for improvement, assess customer expectations and prepare the organisation to meet them, etc.

96. A customer service department should be set up by every bank at its head office/central office to monitor the progress in improving service rendered by branches. Activities like annual surveys, complaints/suggestions received from customers, coordination with other banks for improvement in customer service, etc., should fall within the purview of this department. In addition, it should conduct its own surveys, studies, research, etc. It should also work as customers' spokesman in the organisation. It should also devise systems for following up cases of complaints redressed so as to ensure that the complainants enjoy continued satisfaction.

97. A small high powered permanent steering committee on customer service should be set up by banks on the national plane to coordinate and monitor, on a continuous basis, customer service rendered by banks. This committee should concern itself with constant review of the range and quality of customer service rendered by banks vis-a-vis the expectations of customers in a dynamic environment and perform advisory functions to improve customer service.

(14) There are some other important and critical areas in customer service which we have not been able to study with a view to suggesting solutions. We have been quite aware of these areas of deficiency, but, because of the complexity, they do not permit of easy and early solutions. Some such areas are listed below:

(a) Delay in clearance of local cheques in metropolitan centres.

Notwithstanding our recommendation No. 42, we would like to devote further attention to this problem.

(b) Collection service of banks is generally poor.

Our recommendation No. 39 only bypasses the deficiency in collection system. Another aspect, which has not been gone into, concerns inter-bank collections including inter-bank agency arrangements.

(c) Exchange of soiled and mutilated currency notes and acceptance of large number of small denomination currency notes.

This is almost a universal problem. A related problem is banks' inability to supply currency notes and coins of the required denominations and quantity at all times. This calls for consultations with Reserve Bank of India, besides internal gearing up in banks.

There are other areas, not listed above, which will also be gone into by us, in addition to the specific aspects mentioned in paragraphs 5, 7, 8, 9 and 10 of this report as needing a detailed examination.

(Concluded)

Credit Planning in Commercial Banks*

D. J. Kanvinde

Loaning policies of commercial banks have a great significance in developing economies. Wherever economic planning is undertaken, emphasis in varying measure is laid on the alignment of credit policies of commercial banks with the overall economic policy. If sectors which are accorded high priority in the plan do not get equal priority in resource allocation and credit availability, planning will become an exercise in futility. In India, in terms of overall national policy, agriculture, small scale industries and exports are placed high in the order of priorities; development of backward areas is considered essential to reduce inter-regional imbalance and population pressures develop-

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ing on metropolitan agglomorations and rural industries need to be revitalised and placed on a sound footing. It is absolutely essential to ensure that adequate credit facilities are provided to them and commercial banks have to reorient their credit policies to meet these national objectives.

Credit policies of commercial banks in India in the sixties, barring some exceptions lacked policy-orientation[1] and displayed a strong bias in favour of big business. In March 1968 for example, large and medium industry accounted for 60.6 per cent of the total bank credit, small scale industry for 6.9 per cent and agriculture and allied activities for just 2.2 per cent. The National Credit Council's Study Group appointed under the chairmanship of the late Shri V. T. Dehejia, to examine the extent to which the credit needs of industry and trade were likely to be inflated and how such trends could be checked, came to the conclusion that security-oriented lending had led to overfinancing of industry in relation to their trends in production. Credit planning which was introduced in the wake of bank nationalisation, aimed at redirecting the flow of bank credit in favour of priority sectors and according to the overall national policies. Credit planning is a conscious effort on the part of banks to allocate their loanable funds among the various sectors, according to the priorities in terms of the overall national policies.

Instrument of Monetary Control

Credit planning has also a great significance as an instrument of monetary control. Credit planning which seeks to achieve need-based credit-extension to various sectors and borrowers, is in many respects superior to overall quantitative as also selective credit controls. Blanket quantitative controls tend to be blind as to the purpose of the loan or the place of the borrower in the overall scheme of priorities. In periods of credit squeeze, all borrowers, whether in the priority or the

1 For further discussion please see 'Need for Credit Planning' Parts I & II, by Shri L. D'Mello, State Bank of India Monthly Review, April and May 1970.

non-priority sector, are likely to be affected, because of the overall reduction in the credit-creating capacity of the banks, unless either the monetary authorities indicate some exemption or the concerned banks on their own, differentiate between one borrower and another and regulate the credit flow according to their needs. Sometimes, however, there is no time or scope for banks to do so; in other cases it becomes difficult because the banker is open to the charge of discrimination. Similarly, when the cost of credit rises, all borrowers are likely to feel the pinch of higher cost, unless there is a stipulation to shield the priority sector from its impact. Even selective credit controls which are in many ways superior to blanket quantitative controls still have a strong element of generality. Only detailed credit planning can be expected to tailor the credit supply to the production needs of the various sectors of the economy, by ensuring that credit is extended to each sector and each unit therein, according to its needs. In a planned economy, growth of various sectors is sought to be balanced inter se, the degree of inter-sectoral balance depending upon how finely the plan has been prepared, taking into consideration the mutual linkages and input-output relationships of the various sectors. In such a situation, the success of the total plan will presuppose that the growth of various sectors is facilitated to the desired extent, through adequate supply of inputs and credit to procure them. Detailed credit planning alone will ensure this.

Credit Planning Exercises in India

Since the introduction of social control, conscious efforts were being made by banks to channel increasing amount of credit to priority sectors like agriculture, small scale industries and exports. Since the beginning of the seventies, however, the Reserve Bank of India has been making more systematic efforts to guide and encourage the commercial banks to plan their credit portfolio by estimating the deposit growth and deciding the deployment of funds, regionally, sectorally and among major borrowers or purposes. In planning this deploy-

ment, the concerned bank is expected to take into account the priorities indicated by the Reserve Bank as also the constraints imposed by it. Through such priorities and constraints, the Reserve Bank seeks to direct the flow of credit from the banking system into various sectors, regions and purposes. The Reserve Bank asks individual banks to prepare their credit budgets for the busy or slack season or for a longer period extending over a year, which covers both the seasons. These credit budgets are discussed in detail with the top managements of the concerned bank by the Reserve Bank. These credit budget exercises, though still in their early stages, have great potential as a tool of credit planning in India and every effort should be made to refine them.

Pre-requisites of Successful Credit Planning

If credit planning is to succeed as an instrument of credit allocation in line with the overall national policy, the following three conditions appear necessary: (a) full awareness of and commitment to the national priorities, (b) allocation of resources according to the scheme of national priorities and (c) realistic estimation of credit needs of and extension of credit to each borrower, strictly according to his estimated needs.

(a) Awareness of and Commitment to National Priorities

After the major proportion of the banking industry came into the fold of the public sector, awareness on the part of the bank management of the national priorities could be taken for granted, at least at the top level. How far this understanding and sense of commitment percolate down the line to the operating staff would depend upon the arrangements made by the top management to spread this awareness among the various echelons of the staff, through personal dialogues, training programmes, lectures, circulars, etc. This is important because credit decisions in a bank are taken at various levels, depending upon the scheme of delegation of authority in the institution. Generally, small or well secured loans are sanctioned at

the lower level and larger or unsecured loans are sanctioned by the higher level management. The lower level management in this way does participate in credit decisions and unless the staff at this level is also imbued with the right degree of policy-orientation, there is no guarantee that credit dicisions at these levels will be governed by the same criteria, no matter how committed the top management may be. This is all the more important in the case of priority sector lending, as most decisions regarding lending to the small sector in industry and business as well as to agriculture are normally taken at lower levels of management.

There is also another angle to this problem. The priority sectors will need to be defined very clearly by the monetary and other national authorities, so that the decision-making in banks becomes easy. This, in fact, is the special responsibility of the policy-maker. For instance, if the cotton textile industry is declared a priority industry because it produces essential mass consumption goods, will the priority status apply equally to all units therein, including those owned by monopoly houses? Does an industry which produces 'luxury goods' like air-conditioners, some of which get exported, become entitled to the priority status on grounds of export-orientation? These questions would need to be clarified unequivocally. If there is any conflict of priorities, it should be resolved by the policy-maker and not left to the individual officer to solve according to his judgement.

(b) Allocation of Credit according to National Priorities

Assuming that national priorities are internalised by an individual bank, it has to succeed in allocating credit according to these priorities. This problem will have two aspects: (i) increasing credit to certain sectors or areas and (ii) rationing credit flow to certain others. Encouraging credit-flow to certain sectors or areas according to national priorities is difficult in respect of certain activities and areas which need for their development, not

only credit but also a host of other services. This involves co-ordinated promotional work with the assistance of several official and non-official agencies. For example, development of small scale industries has necessitated the teaming up by commercial banks with several promotional agencies set up specially for the purpose, in the matter of supply of scarce raw materials or preferential treatment in the purchase of products manufactured by small scale industries. Consequently, allocation of credit to priority sectors, which need promotional and extension work for their development, presents much difficulty in credit planning exercises as also in their implementation. Credit extension in backward areas where the credit absorption capacity of the economy is low also presents similar problems. The best method of increasing credit supply in such areas is through a well drawn-out credit plan, which is implemented with the active support of all developmental agencies operating in the area, so that all the road-blocks to development can be removed. This strategy is being followed by commercial banks in their lead districts.

Another problem in allocation of credit which is important in credit rationing and no less so in credit preemption for priority sectors is that, though credit planning is done with reference to outstanding levels, sanctioning of loans in respect of cash credits (and overdrafts) is normally in terms of limits. The Tandon Committee Report has pointed out that the credit limits sanctioned aggregated Rs. 12,880 crores at the end of June 1974 as against the total deposits of Rs. 10,706 crores as on that day and the actual utilisation was only 57 per cent of the total limits. The Tandon Committee has rightly commented that even with a small increase in the percentage of utilisation, the entire system can be thrown out of gear. In the case of cash credits and overdrafts, once the limit is sanctioned, the actual utilisation is under the control of the borrower. He may utilise the limit partially or to the fullest extent. If the bank plans on the basis of full utilisation of limit, partial utilisation of the limit could indicate inadequate attainment of the target. On the other hand, if the plan

is on the assumption of fractional or partial utilisation of the limit, fuller utilisation would indicate over-shooting of the target. This problem, however, will be partially solved when Tandon Committee's suggestion to bifurcate the cash credit limit into a loan and a demand cash credit is implemented as then the drawings under the latter alone w l undergo fluctuations.

As regards the sectors of the economy in respect of which credit will have to be rationed, the problem will be how to assess the credit needs realistically so that, while genuine production needs are met, credit in excess of these is not made available.

(c) Realistic Estimation of Credit Needs of the Borrower

(i) **Assessment of Credit Needs** : A need-based system of credit extension pre-supposes a clear understanding of the definition of credit 'need', an accepted formula to assess the credit need and agreement on the relative roles of various institutions in meeting the need. It is also important that there should be universal acceptance of these difinitions and 'norms' in the banking industry, so that there will be no competitive undercutting. The central problem of credit planning is to decide such 'norms'. The Tandon Committee has made valuable suggestions in this behalf and now that the Reserve Bank of India has accepted most of its important recommendations, they will hereafter serve as guidelines on the basis of which, credit planning will be done in banks.

The Tandon Committee has, in fact, set the problem in a clear perspective as under. "We would expect the borrower to hold only a reasonable level of inventory and receivables, according to the norms. The total current assets will be carried partly by a certain level of credit for purchases or other current liabilities. Funds required to carry the remaining current assets may be called the working capital gap which can be bridged from the borrower's owned funds and long term borrowings and partly by bank borrowings." (para 6.2 of the Report).

The credit need with which the banks are concerned has thus been defined as 'working capital gap'. The formula to assess the need is presented in terms of the 'norms' regarding inventories and receivables which different industries can be expected to carry. The various resources to meet the 'gap' are: owned funds, long-term capital and bank credit.

(ii) **Norms:** The Tandon Committee has worked out norms for holding current assets, particularly inventories of raw materials, stores and finished products, stock-in-process and receivables in respect of a total of 15 major industries, covering about one-half of industrial advances of banks. The norms represent the maximum levels for holding inventory and receivables in each industry. Borrowers are not expected to hold more than these levels. But the norm is no entitlement to hold inventories or receivables up to this level; if a borrower has managed with lower inventory levels in the past, he should be asked to continue to do so. The 'norms' envisaged by the Tandon Committee for inventories are supposed to cover (i) the minimum level of inventory in plant, depending on technological requirements and (ii) inventory for strategic reasons but not excess inventory either for reasons of stock-profit or conservative policy or inefficient management.

(iii) **Bank's Contribution to Credit Needs:** The contribution of the banks to meet the working capital gap would depend upon how much long-term funds the borrower can be expected to provide. The larger the owned funds or long-term funds that the borrower can raise, the smaller would be the need for banks to contribute. If the banker refuses to provide working capital finance beyond a particular proportion, the borrower would be thrown back upon his own resources or loans from term-lending institutions and/or forced to manage with reduced inventory.

The Tandon Committee has suggested three methods in respect of banks' contribution to the working capital gap: (i) The first method envisages that the bank may

finance up to 75 per cent of the working capital gap; (ii) according to the second method, the borrower is expected to provide for a minimum of 25 per cent of the total current assets out of long-term funds, i.e., owned funds plus term borrowing and (iii) according to the third method, the borrower is expected to provide, out of long-term funds, a minimum of 25 per cent of the total current assets excluding 'core' current assets, which are any way supposed to be financed only out of long-term funds. The Tandon Committee recommends that though the third method will provide the largest multiplier of bank finance, to avoid hardships to the borrower, a beginning may be made with the first method, placing all borrowers, with credit limits in excess of Rs. 10 lakhs, in this method within a period of about one year. The ideal of the third method may be reached in stages. The liberal approach under the first method would facilitate financial structuring of new companies, setting up projects in backward areas, and also for flexibility in re-structuring of existing companies with a weak financial base.

As regards aligning credit with priority industries, the Tandon Committee visualises that the monetary authorities will, from time to time, define the order of priorities, for different industries and lay down different scales of financing, as percentage of the working capital gap for the different classes of industries as an important instrument of economic policy, for aligning credit with the priorities for industries. This recommendation has a great significance from the point of view of credit planning and it is hoped that the Reserve Bank of India will make increasing use of this method for directing credit supply to various sectors, according to their place in the order of priorities.

Production-oriented Credit

One of the important objectives of credit planning is to ensure that the expansion in credit is non-inflationary, i.e., just enough to meet the genuine needs of production. This can be achieved if the credit-expansion is strictly

production-oriented. In simple terms, the concept of production-oriented credit assumes that for every manufacturing activity, there is a minimum credit-need which must be satisfied and that every increase in production is expected to lead to a corresponding increase in the need for credit. Other similar concepts like 'production elasticity of credit' or 'credit co-efficient of production' also imply a definite relationship between credit needs and production.

In actual fact, however, the relationship between demand for credit and actual production has not been so direct and clear. The past trends in this respect have been quite bizarre. This is because the demand for bank credit is a joint function of several factors such as: (i) changes in production, (ii) changes in the size of inventories, (iii) changes in trade credit, (iv) changes in other liabilities like undistributed profits, tax-provisions, public deposits, etc., (v) changes in price level and (vi) availability of term credit or additional share capital. Further, the size of inventories was seldom strictly related to the trends in production but contained liberal proportions of what the Tandon Committee calls 'flabby inventory', 'profit-making inventory' and 'safety-inventory'. The size of inventory was often so large that it was insensitive to small changes in production, which could always be taken in the stride. Inflation has complicated the matters further and come in handy to convince the banker about the need for higher credit even to carry the same level of inventories. Unless, however, the banker can adequately prove that increase in credit is related to and justified by increase in production, he is likely to receive at least a part of the blame for inflation.

The whole concept of production-oriented credit appears to many as an elegant abstraction with little relevance to practical banking. It is argued that funds flow is the real determinant of the demand for credit and not the changes in production and that there is no linear relationship between fund needs and production, because fund needs are not a function of production alone. If a reliable forecast about the funds flow is available, credit demand can be estimated with a reasonable degree of

accuracy. The Tandon Committee has also accepted this line of thinking.

An economist, however, is not likely to accept this reasoning. He would argue that in the ultimate analysis, credit creation in the economy cannot be out of line with the trends in production, otherwise it is likely to lead to inflation and the banker is likely to be in for part of the blame. It may be that the overall credit demand may not be linearly related to production but some factors which influence the credit demand are definitely so related. An effort should be made to isolate these, study their relationship with production and relate the supply of credit to them.

Production-oriented Approach

Conditions, however, have distinctly improved with the publication of the Tandon Committee report. Once the norms about current assets are implemented and policy regarding proportion of current assets or working capital gap to be met by commercial banks is decided, the influence on bank credit of any change in production can be estimated as follows:

Other things remaining equal, any change in the volume of production will lead to a corresponding change in: (i) the value of the goods in process, (ii) inventories of raw materials and stores, (iii) stocks of finished goods, and (iv) receivables.

In other words, ceteris paribus, changes in production will directly affect the value of current assets. 'Ceteris paribus' will cover mainly price behaviour. If the extent of the changes in prices can be estimated, impact of production on current assets as calculated above can be suitably adjusted to price changes. The change in the value of current assets consequent on the change in production can be estimated in the contest of the 'norms' set by the Tandon Committee. If bank credit is to be strictly production-oriented, the increase in credit consequent on a given increase in production cannot be allowed to exceed this figure.

According to the 'funds flow' approach recommended by the Tandon Committee, a given rise in production will lead to a rise in the value of current assets in the context of the accepted norms more or less on the same lines as calculated in the previous paragraph. From this, the influence of 'other current liabilities' (such as creditors, undistributed profits, tax provision, public deposits, etc.), is to be deducted. The resultant figure will be the 'working captial gap'. This gap will have to be met from (a) owned funds, (b) term loans and (c) bank credit.

It will be observed from the foregoing that the difference between the two approaches, viz, 'production-oriented' and 'funds flow', arises because the former approach takes into account only the influence of production on credit, whereas the 'funds flow' approach, by allowing for the influence of 'other liabilities', also takes into account other influences affecting the financial position of the company. In certain respects, the 'production-oriented' approach may appear to be a narrow approach but it has a macro-economic significance which cannot be ignored by the banker.

It has also to be accepted that the banker on his part cannot ignore the total fund availability to the company, before deciding how much credit he should commit to the company. Among the various other sources of credit/funds, the major ones would be trade credit, accruals, provisions, long-term loans and additional equity. In the case of a loss-making company, many of these avenues may be closed and the banker, as a transitional measure, may have to extend additional credit to enable the company to tide over its difficulties, lest he should lose all the funds he has already advanced. On account of the peculiar features of individual companies, the credit extended in many cases may be either smaller or larger than that strictly warranted by production. The aggregate increase in credit arrived at by the 'funds flow' approach may be different from that arrived at by the 'production-oriented' approach. It would, however, be desirable that though there may be account-to-account variations between the credit needs calculated by

the two approaches, on the aggregate for the bank as a whole or at least for the banking system, the incremental credit should not be far out of line with the trends in production. Towards this end, it would be better for each bank to work out the two sets of figures according to both the approaches and try to see that as far as possible at the bank level the additional credit extended does not exceed the increase calculated according to the 'production-oriented' approach. At any rate, these exercises will constantly keep the principle of production-oriented credit before the operating banker and make him conscious of his overall responsibility, as an important functionary in the monetary system. Even this will be no small an achievement of the credit planning exercises.

Of course, it has to be accepted that bank credit is only one of the resources available to a manufacturer. Though credit planning is a very important discipline, it by itself may not be sufficient to control inflation. A constant overview will have to be taken of the total credit creation in the economy from all sources, to ensure that on the aggregate, it is within non-inflationary limits. At the macro-level, total credit creation from various sources in the economy—and not the increase in bank credit alone—will have to be matched with the increase in production and at the micro-level, the total availability of funds to a unit will have to be kept under observation, to ensure alignment with production trends. Only then would credit planning succeed effectively as an instrument of monetary policy.

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Current Topics

Price Situation

The most important achievement of the country's economy during 1975 was the containment of inflationary pressures. The index of wholesale prices (1961-62=100) showed a decline of 7.9 per cent during the year in sharp contrast to the rise of 18.9 per cent in 1974 and 26.0 per cent in 1973. The series of anti-inflationary monetary, fiscal and administrative measures, effective action taken against smugglers, hoarders and black-marketeers, improved supply position and the impact of emergency brought about the welcome decline in prices.

Most of the commodity groups recorded a fall during the year. The index of 'industrial raw materials' showed a decline of 19.8 per cent during the year as against the rise of 1.9 per cent in 1974. This decrease was brought about by a fall in the prices of almost all the sub-groups except raw jute. The index of 'raw cotton' showed a fall of 11.9 per cent against the rise of 5.3 per cent in 1974. This was a result of the higher output of cotton of 7.08 million bales in 1974-75 than 6.31 million bales in the previous year. Restricted mill demand due to imposition of power cuts, especially in Maharashtra, Gujarat and Tamil Nadu, slackening of domestic as well as export demand for cotton textiles, together with heavy selling pressure arising out of larger arrivals at the terminal markets brought about the decline in raw cotton prices. Although the output of groundnuts was lower at 4.99 million tonnes during

1974-75 than 5.93 million tonnes in 1973-74, the increase of 30 per cent in the output of rapeseed and mustard and greater availability of cotton seed prevented any upward pressure on the prices of groundnuts. The hold of speculative forces in the oilseeds market was also substantially reduced, and consequently, the prices of groundnuts declined by as much as 34.8 per cent during 1975 as against the rise of 9.4 per cent in 1974. In contrast, raw jute prices witnessed a rise of 10.8 per cent in 1975 as against the increase of 18.5 per cent in 1974. This was mainly due to the lower output of raw jute and mesta at 5.82 million bales during 1974-75 than 7.68 million bales in 1973-74 as also due to the hike in the statutory minimum price from Rs. 125 to Rs. 135 per quintal.

The price index of 'food articles' declined by 12.9 per cent during the year in contrast to the rise of 19.8 per cent in 1974. Among foodgrains, rice recorded a fall of 12.8 per cent as against an increase of 19.7 per cent in 1974. The favourable rabi crop during 1974-75 followed by the bumper kharif crop during 1975-76 and the Government's decision to keep procurement prices unchanged at the 1974 level largely helped in bringing about a decline in rice prices. Higher procurement of wheat consequent upon a bumper harvest and Government's decision to continue with imports contributed to the fall in wheat prices during the year by 17.4 per cent in sharp contrast to the rise of 64.6 per cent in 1974.

The price index of 'machinery and transport equipment' declined by 4.3 per cent during the year in contrast to the rise of 42.3 per cent in 1974. Despite the easiness in prices of industrial raw materials and the decline in the cost of living, the price index of 'manufactures' declined only marginally by 0.7 per cent during the year compared to an increase of 17.4 per cent in 1974. Both the sub-groups, viz., 'intermediate products' and 'finished products' declined by 0.4 per cent and 0.7 per cent respectively compared to increases of 5.5 per cent and 21.6 per cent respectively in 1974.

TABLE NO. 1

INDEX NUMBERS OF WHOLESALE PRICES

(1961-62=100)

	As at the end of December			Percentage variation	
	1973	1974	1975	2 over 1	3 over 2
	(1)	(2)	(3)	(4)	(5)
I. Food Articles	307.0	367.9	320.3	+19.83	—12.94
(i) Rice	287.3	343.8	299.8	+19.66	—12.80
(ii) Wheat	244.6	402.7	332.8	+64.63	—17.36
II. Liquor and Tobacco	252.6	307.7	323.4	+21.81	+ 5.10
III. Fuel, Power, Light and Lubricants	235.1	314.5	367.7	+33.77	+16.91
IV. Industrial Raw Materials	313.9	320.0	256.8	+ 1.94	—19.75
(i) Cotton Raw	293.4	308.9	272.3	+ 5.28	—11.85
(ii) Jute Raw	129.9	153.9	170.5	+18.47	+10.78
(iii) Groundnuts	367.3	402.0	262.0	+ 9.44	—34.83
V. Chemicals	216.0	312.6	322.5	+44.72	+ 3.17
VI. Machinery and Transport Equipment	190.2	270.6	259.1	+42.27	— 4.25
VII. Manufactures	217.4	255.2	253.5	+17.38	— 0.67
(a) Intermediate Products	292.8	308.8	307.7	+ 5.46	— 0.36
(b) Finished Products	199.1	242.2	240.4	+21.64	— 0.74
VIII. All Commodities	265.8	316.1	291.1	+18.92	— 7.91

Among the price indices which recorded a rise during, the year, the group 'fuel, power, light and lubricants topped with an increase of 16.9 per cent during the year against a rise of 33.8 per cent in 1974. This was due to the increase in the prices of a number of petroleum products effected in July 1975 to make up for the losses suffered by oil companies consequent upon the steep increase in the prices of crude oil since 1974. Prices of selected petroleum products were again increased in December 1975. The price index of 'liquor and tobacco' also showed a rise of 5.1 per cent during 1975, though

it was much lower than the increase of 21.8 per cent in 1974. The price index of 'chemicals' showed an increase of 3.2 per cent during 1975 as against a rise of 44.7 per cent in 1974.

Corresponding to the trend in wholesale prices, the All-India Consumer Price Index Numbers for Industrial Workers (Base : 1960=100) fell by 3.4 per cent during 1975 (up to November 1975), in contrast to a rise of 27.3 per cent in the corresponding period of 1974. The index for Urban Non-Manual Employees, however, showed only a marginal decline of 0.7 per cent (up to September 1975) compared to an increase of 22.4 per cent recorded in the corresponding period of 1974.

Measures Taken

The welcome change in the price situation during the year was due to the excellent rabi and kharif harvests as well as the larger procurement and imports of foodgrains and the sustained drive against hoarders and profiteers. In order to sustain the declining trend in prices and to keep the inflationary forces under control, the Government has continued the regulatory monetary and fiscal policies initiated in the second half of 1974. Also, the declaration of emergency in June 1975 and the announcement of the action-oriented 20-point programme on July 1, 1975, have led to the emergence of an overall climate conducive to price stability, peace on the industrial front and discipline. Not only was domestic procurement of foodgrains higher at 9.48 million tonnes in 1975 than 5.65 million tonnes in 1974, but imports were also higher at 7.41 million tonnes in 1975 than 4.87 million tonnes in 1974. Thus, the strengthening of the public distribution system has been one of the key elements of the Government's anti-inflationary policies.

The major emphasis of fiscal and monetary policies during 1975 was on providing a stimulus to investment and growth without jeopardising the stability of the price level. The Annual Plan for 1975-76 provided for an increase of over 23 per cent in the Plan outlay. Later,

the outlay on irrigation and power was further stepped up by Rs. 100 crores. The Budget for 1975-76 also provided some incentives to promote savings and divert them to higher priority areas. These included exemption from wealth tax of equity shares of new companies engaged in certain priority industries, extension of the tax holiday concessions to new units, and exemption from taxation of inter-corporate dividends from new companies engaged in some high priority industries. The credit policy for the 1975-76 busy season seeks to maintain adequate monetary discipline while facilitating an increase in production. While the cost of bank credit remained high, certain selective liberalisations were provided. The combined impact of monetary and fiscal policies can be seen in the trend of expansion of money supply. Thus, the growth of money supply with the public came down from 10.2 per cent in 1974 to 9.0 per cent in 1975.

Outlook for 1976

The sustained declining trend in prices displayed during 1975 may well continue in 1976. Given the current trend of procurement, and the level of stocks of foodgrains with the public sector agencies and vigilance being kept on the activities of hoarders and speculators, it is reasonable to expect a fair degree of stability on the price front during 1976. It is in this light that the Government has taken well calculated risk in stepping up Plan investment for 1976-77 by 31.6 per cent. The continued efforts at strengthening and streamlining the public distribution system, intensification of economy measures as well as the continuation of regulatory monetary and fiscal policies would ensure the continuance of price stability in 1976, provided the next monsoon turns out to be favourable.

Legal Decisions

On Banking

Promissory Note—Ingredients of—

Surjit Singh and Others

vs.

Ram Ratan Sharma
AIR 1975 Gauhati 14

Contributed by N. K. Randeria

A short question in this appeal was whether an acknowledgement of receipt of the amount would exclude the document from the category of a promissory note.

One of the partners of a firm had executed a document on behalf of the firm reading thus—"We have received the sum of Rs. 9,240 from Shri Ram Ratan Sharma of Thangal Bazar, Imphal. The above amount will be repaid on demand. We have received Rs. 9,240 in cash only". The document also contained an endorsement of the guarantor guaranteeing the repayment of the money.

Referring to Section 4 of the Negotiable Instruments Act, the High Court pointed out that the essential ingredients of a promissory note were (i) that the promise to pay must be unconditional, (ii) that the note must be in

writing and signed by the maker, (iii) that the promise to pay must be of a certain sum of money and (iv) that the promise to pay must be to or to the order of a certain person or to the bearer of the instrument. The High Court further pointed out that illustration (b) to the said Section also showed that an acknowledgement of receipt of the amount did not take away the document from the category of a promissory note. Illustration (b) was as follows: "I acknowledge myself to be indebted to B in Rs. 1,000 to be paid on demand, for value received". The High Court, therefore, held that the document in question was a promissory note.

The High Court then considered the definition of 'partnership' as per Partnership Act, and held that from the definition itself it would follow that there was an implied mutual agency to each of the partners of a registered partnership firm so that when the amount was borrowed by a partner on behalf of the partnership firm, it would be binding on the firm and other members of the firm. However, such an act would not bind the guarantor, who was not a partner of the firm.

In the result, the appeal of the partners was dismissed while that of the guarantor was allowed.

(Shri N. K. Randeria is Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I

SELECTED ASSETS AND LIABILITIES OF BANKS IN INDIA

(Rupees in crores)

	Position as on 30-1-1976	A Month ago 26-12-1975	A Year ago 31-1-1975
State Bank of India			
Aggregate Deposits:	3,148.5	3,102.4	2,672.8
Demand (Exclusive of inter-bank transactions)	1,298.9	1,297.5	1,146.6
Time (-do-) ..	1,849.6	1,804.9	1,526.2
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc...	2,425.5	2,318.0	1,883.6
Investments in Government Securities	772.7	772.8	671.5
Associate Banks			
Aggregate Deposits:	727.8	715.8	639.0
Demand (Exclusive of inter-bank transactions)	304.1	295.4	264.5
Time (-do-)	423.7	420.4	374.5
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	589.0	575.8	483.3
Investments in Government Securities	134.8	135.4	124.6
All Scheduled Commercial Banks			
Aggregate Deposits:	13,712.3	13,481.9	11,647.9
Demand (Exclusive of inter-bank transactions)	5,625.1	5,534.1	4,853.2
Time (-do-) ..	8,087.2	7,947.8	6,794.7
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	10,138.6	9,769·2	8,229.9
Investments in Government Securities	3,189·7	3,140.8	2,748.0

TABLE II

SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	December 1975		December 1974	
	State Bank of India	Associate Banks	State Bank of India	Associate Banks
No. of Offices	3,831	1,814	3,409	1,719
Advances				
to Agriculture :				
(i) Direct				
No. of Accounts	7,88,732	1,60,271	5,58,295	1,08,307
Outstandings	176	53	119	37
(ii) Indirect				
No. of Accounts	13,417	3,313	7,864	3,450
Outstandings	65	20	58	17
to Small Scale Industries:				
No. of units	87,716	38,857	71,668	34,115
Outstandings	320	91	286	82
to Small Business :				
No. of Accounts	1,42,052	43,710	96,304	29,673
Outstandings	52	14	40	11
under Differential Interest Rates Scheme :				
No. of Accounts	1,79,730	42,192	1,08,411	25,305
Outstandings	8	2	4	1
for Exports :				
Outstandings	200	41	167	31

TABLE III

SELECTED ECONOMIC INDICATORS

	Position as on 30-1-1976	A Month Ago 26-12-1975	A Year Ago 31-1-1975
	(Amounts in rupees crores)		
1. Money Supply with the Public ...	12,296	12,238	11,262
(a) Currency with the public ...	6,458	6,498	6,217
(b) Deposit money with the public	5,838	5,740	5,045
	December 1975	November 1975	December 1974
2. Foreign Exchange Reserves			
(a) SDRs* ...	21.20	22.03	23.99
(b) Gold	182.53	182.53	182.53
(c) Foreign Exchange	754.26	947.00	587.40
3. Money Rates			
	(Per cent per annum)		
(a) Bank Rate ...	9	9	9
(b) State Bank of India Advance Rate ...	14	14	13½
(c) State Bank of India Hundi Rate ...	14-16	14-16	13-16½
(d) Call Money Rate (Bombay) ...	11.8	11.6	11.1
(e) Bazar Bill Rate (Bombay) ...	21	21	21

*In crores of SDRs,

TABLE III

SELECTED ECONOMIC INDICATORS (Contd.)

		July 1974	June 1974	July 1973
4.	**Index Number of Industrial Production** (1960=100)			
	General Index (Adjusted)	202.1	206.3	197.4
		Week ended 31-1-1976	Week ended 27-12-1975	Week ended 25-1-1975
5.	**Index Numbers of Wholesale Prices** (1961-62=100)			
	All Commodities	289.5	291.1	315.4
	Food Articles ...	318.3	320.3	368.8
	Liquor & Tobacco	323.2	323.4	316.7
	Fuel, Power, Light and Lubricants	367.7	367.7	322.2
	Industrial Raw Materials ...	250.5	256.8	315.3
	Chemicals	320.8	322.5	312.0
	Machinery and Transport Equipment ...	259.8	259.1	254.7
	Manufactures ...	253.4	253.5	255.4
		November 1975	October 1975	November 1974
6.	**Consumer Price Index Numbers for Industrial Workers—All-India** (1960=100) ...	315	316	331
7.	**Foreign Trade**		(Rupees in crores)	
	Total Imports ...	486.3	535.9	331.6
	Total Exports (including re-exports) ...	334.0	285.4	278.6

ज्ञानं ज्ञेयं परिज्ञाता, त्रिविधा कर्मचोदना।

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1975: Another Year of Notable Progress for the Bank

THE BANKING SYSTEM

In keeping with the increased tempo of economic activity following a good monsoon and the emergence of an overall climate conducive to faster growth, the Indian banking system witnessed a higher credit expansion in 1975 than in 1974. The sizeable credit expansion was sustained mostly by an accelerated pace of deposit accretion. The deposit growth of scheduled commercial banks at 16·5 per cent in 1975 was larger than 14·1 per cent in 1974 mainly due to a higher growth in national income, stabilisation of prices and the attractive rates of interest offered on deposits, particularly on deposits of longer maturities. The rate of credit expansion at 22·5 per cent also was considerably higher than 12·9 per cent in 1974. While food advances increased by 346.4 per cent during the year against a decline of 40·5 per cent in 1974, non-food advances recorded a lower growth of 13·8 per cent than 15·7 per cent witnessed in the preceding year. Investments of scheduled commercial banks in Government securities rose by Rs. 397 crores in 1975 as against Rs. 341 crores in the previous year. Borrowings from the Reserve Bank also increased during the year by Rs. 321 crores to Rs. 484 crores.

Deposit Growth

The rise in aggregate deposits of scheduled commercial banks at Rs. 1,912 crores (16·5%) during 1975 was much larger than Rs. 1,429 crores (14·1%) in 1974. Both demand and time deposits rose by Rs. 672 crores and Rs. 1,240 crores during the year, compared to the increase of Rs. 583 crores and Rs. 846 crores respectively during the previous year. In percentage terms, while the growth rate of demand deposits increased marginally from 13·6 to 13·8 in 1975, that of time deposits rose sharply from 14·4 to 18·5. The share of time deposits in the total deposit accretion went up from 59·2 per cent to 64·9 per cent, while that of demand depo-

sits fell from 40·8 per cent to 35·1 per cent during the same period.

Credit Expansion

Credit expansion of scheduled commercial banks at Rs. 1,793 crores was significantly larger than Rs. 914 crores in the previous year. Food procurement advances showed a rise of Rs. 724 crores as compared with a fall of Rs. 142 crores in 1974, while non-food advances recorded a slightly higher increase of Rs. 1,069 crores than Rs. 1,056 crores in the previous year. The main reasons for the higher increase in credit in 1975 were the sharp rise in food procurement advances due to the excellent kharif crop, improved performance and larger working capital requirements of public sector undertakings and revival of industrial production, particularly in core sector industries. The expansion in non-food credit during the year could also be attributed, in some measure, to an increase in inventories brought about by slackness in demand in some industries.

Credit Policy

During the year, the restrictive credit policy, initiated in the second half of 1974, was more or less continued with the main objective of containing inflation. While maintaining the high interest rate structure, the policy aimed at reducing inventories and ensuring a more efficient deployment of credit in accordance with national priorities.

During the 1975 slack season (May to October 1975), the banks were asked to limit their credit expansion in the next six months to their own available resources after providing for investments in Government and other approved securities and statutory cash reserve requirements. The banks were also directed to plan the utilisation of their resources in such a way that credit expansion for 1975-76 (May-April) as a whole was about 63 to 64 per cent of their deposit accretion during the year. The credit policy for the 1975 slack season, while opting for the continuation of the policy of controlled credit expansion, indicated to banks the need for increasing their term lending activities for high priority projects.

The credit policy for the 1975-76 busy season emphasised the need to keep the expansion of money supply under control as also to meet the requirements of sectors affected by slackening of demand. With these ends in view, the structure of prevailing interest rates has been kept unchanged and margin requirements in respect of advances against essential commodities like sugar, paddy, groundnuts and textiles have been reduced.

The system of refinance based on net liquidity ratio has been discontinued and the basic quota of refinance equal to 1 per cent of demand and time liabilities as on the last Friday of September 1975 will be made available at a fixed rate of interest of 10 per cent. Bill rediscounting facilities at the Bank rate will be available to the extent of 10 per cent of bills purchased and discounted as on the last Friday of September 1975.

In addition, refinance in respect of finance for public food procurement would be equal to 50 per cent of the increase in such advances between Rs. 450 crores and Rs. 600 crores and 100 per cent of the increase in such credit over Rs. 600 crores.

The minimum limit in respect of prior credit authorisation has been raised from Rs. 1 crore to Rs. 2 crores for undertakings in the private sector. The commitment charge of 1 per cent has been discontinued. The Reserve Bank has also withdrawn additional margins on book debts and inventories imposed in November 1973. For stimulating investment, the Reserve Bank has suggested to the banks to charge a rate of interest not exceeding 15 per cent on term loans for periods beyond three years.

The Reserve Bank has emphasised that in planning credit deployment, primary attention has to be given to the requirements of public food procurement, agriculture, fertiliser distribution, exports, public sector manufacturing units, industries in core and mass consumption areas, small borrowers including small scale industries and term loans to stimulate investment in priority areas.

Banks have also been advised that the overall credit expansion during the current busy season would have to be sustained in the main through banks' own resources after providing for statutory liquidity requirements and that the Reserve Bank's support, except in respect of food procurement credit, would be essentially of a limited and temporary nature to enable the banks to meet the pressure of seasonal demands. Banks should make sure that too much reliance on this source does not create problems of liquidity and endanger their overall credit plans.

Other Developments

With a view to meeting the growing and diversified credit needs of the rural sector, more particularly small and marginal farmers and small artisans, in an adequate measure, the Government decided to set up a chain of regional rural banks in the country. About 50 rural banks are proposed to be established in a phased manner. Initially, 5 such banks were set up on October 2, 1975. The share capital of the rural bank is to be subscribed by the Government of India, the State Government and a sponsoring commercial bank in the ratio of 50 per cent, 15 per cent and 35 per cent respectively.

A major development in the field of bank lending in 1975 was the submission of the final report by the Study Group to frame guidelines for follow-up of bank credit appointed by the Reserve Bank of India. The Reserve Bank, in consultation with the Government, has accepted the main recommendations of the Group regarding norms for inventory and receivables, approach to lending, style of credit and information system, and banks have been asked to initiate immediate action with respect to all borrowers having credit limits in excess of Rs. 10 lakhs from the banking system. Accordingly, banks have been directed to implement the norms for inventory and receivables recommended by the Study Group in respect of 15 major industries which account for about one-half of the industrial advances of banks. As regards approach to lending, three methods have been suggested, all of which aim at progressively reducing the reliance of industrial units on bank credit. It is hoped that

these measures will help ensure most economical and rational use of bank finance for productive purposes.

Another notable development during the year was the submission of an interim report by the Working Group on Customer Service in Banks appointed by the Government of India. The Group has identified critical areas of customer dissatisfaction such as delay in putting through transactions, delay in correspondence, delay in decision-making, elaborate and sometimes seemingly unnecessary information required in processing credit applications, undue emphasis on rules and procedures and general attitude of unconcern and apathy for the client. Further, the Group has highlighted the need to view the entire gamut of customer service against the back-drop of four major and interdependent factors, viz.,

(a) demands on and expectations from banks,

(b) quality and job knowledge of bank personnel,

(c) attitude and motivation of bank employees, and

(d) supporting systems and procedures. It has been stressed in the report that bank employees have an obligation to the community to improve productivity and quality of service. The Group has further stated that public expectations from the employees of banks should be met by enlarging the employees' role and increasing workload and responsibilities without additional remuneration or privileges since this section of the society is already over-compensated in public perception and there would appear to be some justification in this view. In the recommendations of the Group, considerable emphasis has been placed on the concept of teller system, its qualitative and quantitative extension in banking operations and concept of self-supervision on the part of bank employees. Major recommendations of the Working Group impinging on such critically important areas of customer service as deposit accounts, remittances and collections, loans and advances, discipline and attitudes of staff have been taken up for implementation by banks.

Branch Expansion

Commercial banks opened 2,320 offices in 1975 compared with 1,693 in the previous year. Of these, 780 offices or

33.6 per cent were situated at rural centres. With the opening of 2,320 offices in 1975, the number of offices of commercial banks increased by 12,116 from 8,321 on July 19, 1969 to 20,437 as at the end of 1975. As a result, the average population per bank office came down from 65,000 to 27,000 over this period. Of the net increase of 12,116 offices since July 19, 1969, as many as 5,776 or 47.7 per cent were situated at unbanked centres. The emphasis of the branch expansion policy was on progressive reduction of regional imbalances in the provision of banking facilities. Thus, the relatively underbanked States of Assam, Bihar, Jammu and Kashmir, Madhya Pradesh, Manipur, Meghalaya Nagaland, Orissa, Tripura, Uttar Pradesh and West Bengal accounted for 33.2 per cent of the net increase in the number of offices up to the end of 1975. Further, there has been a significant rise in the share of rural offices since the nationalisation of the fourteen major commercial banks. Of the 12,116 new offices, as many as 5,516 or 45.5 per cent were opened at rural centres. As a result, the number of rural offices rose from 1,860 or 22.3 per cent to 7,376 or 36.1 per cent at the end of 1975.

In September 1975, the Reserve Bank called upon the commercial banks to furnish rolling plans for branch expansion in the three-year period 1976-1978. The Banks have been asked to ensure that a large number of offices continued to be opened in the unbanked / underbanked rural and semi-urban areas, unbanked block / taluka / tahsil headquarters and underbanked and backward districts and States and Union Territories, especially in the Eastern and North-Eastern Regions so as to reduce inter-State and inter-district disparities in banking facilities. The plans are required also to cover centres with high deposit potential, unbanked growth centres identified by the lead bank, as also those where State Governments require bank offices for the purpose of implementing their development plans. The banks have been asked to lay special emphasis on opening offices at places where they have undertaken or they propose to undertake financing of special schemes with refinance assistance from the Inter-

national Development Association, Agricultural Refinance and Development Corporation, etc., and in adivasi and tribal belts.

THE BANK'S OPERATIONS

The Bank's operations during the year were characterised by a slower growth of aggregate deposits accompanied by a larger expansion of credit. Aggregate deposits of the Bank rose by 15·4 per cent in 1975 compared with 21·5 per cent in 1974. Credit, on the other hand, expanded much faster by 32·7 per cent during 1975 than 10·4 per cent in 1974. Slower growth of deposits was mainly due to a substantial deceleration in the growth of corporate deposits. The big spurt in advances was accounted for by both food as well as non-food advances. Food advances increased by Rs. 199 crores against a decline of Rs. 67 crores in the previous year. Non-food advances also recorded a larger increase of Rs. 372 crores than the rise of Rs. 232 crores in the preceding year. The increase in the Bank's investments in Government securities at Rs. 87 crores was smaller than Rs. 143 crores in 1974.

Deposit Growth

The deposit accretion of the Bank in 1975 at Rs. 414 crores was lower than Rs. 476 crores in the preceding year as a result of a marked deceleration in the growth of deposits from the corporate sector. However, viewed in a long-term perspective of, say, 5 years, the rate of deposit growth of the Bank was quite impressive. Deposit growth of the Bank in the five years ended 1975 at 153·8 per cent was much higher than 137·2 per cent in the case of all scheduled commercial banks.

Component-wise, the accretion in demand deposits slowed down from 19·9 per cent in 1974 to 8·4 per cent in 1975. Though the growth in time deposits in absolute terms was higher, in percentage terms, it showed a deceleration from 22·8 per cent in 1974 to 21·1 per cent in 1975. In view of the sluggish rise in demand deposits, the share of time deposits in the deposit accretion of the Bank went up from 58·2 per cent in 1974 to 75·8 per cent in 1975, while that of demand deposits fell from 41·8 per cent to 24·2 per cent.

Category-wise, while savings deposits recorded a higher growth rate of 20·5 per cent in 1975 than 18·5 per cent in the preceding year, fixed deposits showed a lower growth rate of 20·8 per cent than 21·5 per cent in 1974. Current deposits declined by 1·3 per cent in 1975 against an increase of 21·5 per cent in the previous year.

To help broaden and thus strengthen its resource base as well as spread the banking habit among the public, the Bank has been operating a number of special deposit mobilisation schemes. The coverage of special schemes for deposit mobilisation was extended to a larger number of offices during the year. The Janata Deposit Scheme, which was extended to 508 offices up to the end of 1975, continued to gain in popularity and covered over 4.9 lakh deposit accounts, thus assisting in the mobilisation of savings of the people of small means. The Recurring Deposit Scheme, introduced in 1974 and in operation at all offices of the Bank, has also become quite popular among the people with regular fixed income. The State Bank Reinvestment Plan, introduced in 1974 and under which term deposits of Rs. 5,000 and multiples thereof for periods ranging between 25 months and 120 months are accepted, gathered further momentum during the year and mobilised deposits aggregating Rs. 77 crores at the end of 1975. The scheme was made more attractive by reducing the amount of deposit from Rs. 5,000 and multiples thereof to Rs. 1,000 and multiples thereof effective from April 11, 1975. Reflecting their continued popularity, the sale of the Bank's travellers cheques rose by as much as 32 per cent.

Credit Expansion

The Bank recorded a significant increase in its credit expansion during the year. The increase in credit at Rs. 571 crores in 1975 was very much higher than Rs. 165 crores witnessed in 1974. In percentage terms, the rate of credit expansion of the Bank at 32.7 was considerably higher than 22.5 for all scheduled commercial banks. Taking a longer period, the credit expansion of the Bank during the last five years (1970-75) at 122.9 per cent was higher than 119.4 per cent for all scheduled commercial banks. The bulk of the

credit expansion of the Bank during the year was for purposes other than food procurement. Food procurement advances of the Bank increased by Rs. 199 crores against a decline of Rs. 67 crores in 1974, while non-food advances went up by Rs. 372 crores in 1975 against Rs. 232 crores in the previous year. Even within non-food advances, advances to the public sector undertakings and priority sectors accounted for a major portion of the rise in such advances.

State Bank Advance Rate

For meeting higher establishment costs and also keeping in view the fact that a considerable margin existed between the Bank's prime lending rate and that of other leading banks in the country, the State Bank of India Advance Rate was raised from 13½ per cent to 14 per cent with effect from April 1, 1975. The new Rate still compares favourably with the lowest of the prime lending rates of other leading banks, viz., 14¼ per cent. In line with the Bank's policy of extending selective support to the small among the borrowers in the priority sectors, the increase in the Advance Rate was not applied to advances to small scale industries up to Rs. 2 lakhs and direct advances to agriculturists up to Rs. 5,000. The increase is also not applicable to advances for food procurement operations and for exports in respect of which the lending rates are as stipulated by the Reserve Bank of India.

Branch Expansion

In tune with national policy, efforts to step up the pace of branch expansion continued in 1975 and the Bank opened 419 new offices during the year, against 375 offices in 1974. Of these, 334 offices were located in rural and semi-urban areas, 54 at urban and 31 at metropolitan centres. Even in rural areas, the Bank is progressively trying to cover smaller centres with population below 5,000. In 1975, as many as 152 offices were opened at such centres as against 110 in 1974 and 52 in 1973. The accent on covering unbanked blocks in a phased manner continued during 1975 and 81 offices were opened at such centres during the year. Of the 419 new offices opened in 1975, as many as 99 were located in underbanked districts where the average population served per bank office exceeded

75,000. With the opening of 419 offices and together with the office at Gangtok in Sikkim, which was hitherto treated as an office outside India, the total number of offices of the Bank in India stood at 3,814 at the end of 1975.

The Bank is endeavouring to maintain the momentum generated in the field of branch expansion and plans have been drawn up for opening 1,295 offices in the three-year period 1976-78. Over 75 per cent of the proposed offices will be situated in rural and semi-urban areas.

Taking a longer-term perspective, of the increase of 12,116 offices in the total number of offices in India of all commercial banks between July 19, 1969 and December 31, 1975, the Bank accounted for 2,241 offices or 18.5 per cent. The attention given by the Bank over the years to extending banking facilities in rural and semi-urban areas is reflected in the proportion of such offices to the total number of offices. At the end of 1975, about 74 per cent of the Bank's offices were situated in rural and semi-urban areas, while the corresponding percentage was about 66 in the case of all commercial banks.

Lead Bank Scheme

In pursuance of the strategy of preparing credit plans for all the lead districts of the Bank to help accelerate economic development of these districts in an orderly manner, the work of preparation of credit plans gathered momentum during 1975. Of the 67 lead districts of the Bank, the credit plan for Gorakhpur district prepared in 1973 is under implementation. Credit plans for the remaining districts were at various stages of finalisation at the end of 1975, with the exception of the 3 districts of Mizoram and one district in Arunachal Pradesh.

In order to ensure the speedy implementation of credit plans on their completion, the Bank has initiated advance action to strengthen its organisational machinery in the lead districts with the appointment of Lead District Officers, one for each district or a cluster of districts. Further, the Bank conducted a series of training programmes for its Branch Managers in the lead districts and officials connected with the preparation of the credit plans, with a view to developing in them the

necessary skills. The Bank conducted three programmes at Shillong, Srinagar (Jammu & Kashmir) and Nainital in which, in addition to the Bank officials, Government officials at the district as well as the State level of the concerned States participated. The main objective of the joint programmes was to apprise the Government officials of the basic aims of the Lead Bank Scheme and the strategies employed by the Bank for the development of the lead districts through bankable schemes and to focus the significance of purposeful collaboration between the various agencies working for the economic development of the district through effective team-building. These objectives have been largely met and a clearer understanding of the mutual roles of the financial institutions and other agencies in development at the grass-roots level has emerged through these programmes. The Bank intends to conduct a few more such programmes in 1976.

Pending completion of credit plans, the Bank has already undertaken financing of various development schemes in the priority sectors, identified in the Lead Bank Survey Reports and/or included in the action plans prepared on the basis of depth studies of blocks.

As regards centres identified for branch expansion under the initial surveys in the districts under the Lead Bank Scheme, the Bank has opened offices at 121 centres out of 154 centres allotted to it in its own lead districts and 164 offices out of 200 allotted to it in the lead districts of other banks. Out of the 75 centres allotted to other banks in our lead districts, they have so far opened offices at 45 centres.

Financing of Agriculture

Direct agricultural advances of the Bank increased further during the year by Rs. 57 crores to Rs. 176 crores, as compared to a rise of Rs. 40 crores in the previous year. The number of farmers' accounts also rose from 5.58 lakhs to 7.89 lakhs during the period. The progress achieved by the Bank in this field has been made possible by the intensification of efforts by the existing and newly opened Agricultural Development Branches, adoption of increasing number of villages for intensive financing and formulation and implementation

of area development schemes. The organisational machinery of the Bank for handling agricultural financing business was further strengthened by opening Technical Cells at all the Local Head Offices and Regional Offices. The coverage of small farmers under agricultural financing schemes continued to be satisfactory. At the end of September 1975, 86.3 per cent of the farmers financed by the Bank had holdings of 4 hectares and less and 67.7 per cent had holdings of 2 hectares and less.

A noteworthy feature in the sphere of agricultural financing by the Bank is the impressive performance of the Agricultural Development Branches, whose number rose by 32 to 163 during the year. Between 1972 and 1975, total outstandings at these branches went up from Rs. 4.4 crores to Rs. 63.8 crores and the number of farmers assisted from 29,270 to 2.97 lakhs. As a result, the share of the Agricultural Development Branches in the total direct agricultural lendings rose more than four-fold from 8.1 per cent to 36.4 per cent. Up to the end of 1975, the Bank formulated and submitted 467 schemes involving an outlay of Rs. 152 crores to Agricultural Refinance and Development Corporation covering minor irrigation, integrated area development farm mechanisation, land development, etc. So far, the Corporation has accepted 307 schemes with a total outlay of Rs. 106 crores. Of this outlay, Rs. 73 crores are to be utilised in backward States. The Bank had disbursed Rs. 28 crores up to the end of 1975 in respect of such projects in these States.

Indirect finance provided by the Bank increased from Rs. 58 crores at the end of 1974 to Rs. 65 crores at the end of 1975. This includes Rs. 3·0 crores given to 50,700 farmers financed through 590 primary co-operative societies as against Rs. 2.0 crores granted to 34,000 farmers through 429 primary agricultural credit societies at the end of 1974. A Study Group has been constituted by the Bank to go into all the aspects of the scheme of financing primary credit societies and Farmers' Service Societies, with a view to making the implementation of the scheme more effective and suggesting measures for improving the coverage substantially in this area of activity.

The total direct and indirect finance provided for agriculture by the Bank recorded an overall increase of Rs. 64 crores to Rs. 241 crores at the end of 1975.

Being the lead bank for Gorakhpur district in Uttar Pradesh, the Bank sponsored the setting up of "Gorakhpur Kshetriya Gramin Bank" with its head office at Gorakhpur in conformity with the decision to set up regional rural banks in the country. The area of operation of this bank covers Gorakhpur and Deoria districts. Besides subscribing to the share capital, the Bank has deputed trained personnel to man some of the senior positions of the rural bank.

The regional rural bank started functioning only in October 1975 and it is too early to assess its performance in quantitative terms. The ground-work done, however, holds promise of an impressive performance in 1976.

A Regional Rural Banks Department has been set up at the Central Office of the Bank to make for effective co-ordination with the various agencies concerned and to provide the necessary guidance and assistance to the regional rural banks.

Financing of Small Scale Industries

Larger coverage of smaller of the small scale units received added emphasis in the Bank's deployment of credit to this sector during 1975. As many as 16,048 additional units were financed during the year. As a result, the number of small scale units financed by the Bank rose to 87,716 and the amount of assistance provided to these units increased from Rs. 286 crores in 1974 to Rs. 320 crores in 1975.

In tune with the priorities laid down by the Reserve Bank of India, the Bank's approach continued to be selective and units producing goods for export, mass consumption goods, capital goods and inputs for the core sector and those situated in backward areas were given preferential treatment. The Bank's policy also aimed at stimulating investment in these selected industries by providing increasing quantum of term loans. The approach towards the larger among the small scale units continued to be one of emphasis on a greater degree of financial discipline, improvement in operational efficiency and

strengthening of managerial skills and competence. While the Bank makes all efforts to meet genuine credit needs, over-dependence on bank finance is sought to be discouraged.

The year also marked the implementation of the recommendations of the Bank's Study Team on all aspects to small industry financing. These recommendations aim at (a) improving the qualitative aspects of lending by linking advances on a continuous basis to the level of production, (b) implementing scientific nursing programmes for rehabilitation of sick units and (c) speeding up the decision-making process with the help of adequate information base and analytical appraisal methods. Efforts are being made to build up consultancy cells at the Local Head Offices. In pursuance of this approach, selected officials of the Bank, are being trained to provide them with necessary insight into managerial problems.

The study mentioned earlier, covered the larger among the smale scale industries. As a sequel to this, another study is now being conducted to streamline the procedures relating to the smaller borrowers in this sector. The study is not only expected to enable the branches to handle a large number of such advances and to reduce the cost of operations, but it is also likely to help in improving the Bank's capabilities in assisting and guiding the smaller among the small scale units.

To ensure effective supervision and follow-up, the Bank has adopted during the last few years, an area approach in regard to financing of artisans and rural industries situated in Rural Industries Project areas. The recent study of the scheme, undertaken jointly by the Bank and the Government of India, has stressed the soundness of this approach and need for better co-ordination between Project Officials and the Bank. Pursuant to the recommendations of the Study Team, techno-economic survey of villages will be carried out by the Project Officials and the Bank will then proceed to finance artisans and rural industries situated in Project areas on a village adoption basis. Further liberalisations have also been made in the scheme. The quantum of permissible finance has been increased from Rs. 5,000 to Rs. 10,000 with a provision that genuine cases

needing finance even in excess of Rs. 10,000 will not be rejected. Similarly, the area of operation of the scheme has been widened, especially in the hilly areas to assist the tribals and others at growth centres identified by the Government.

Small Business Finance

Credit provided by the Bank to small business including transport operators increased by 30.0 per cent from Rs. 40 crores to Rs. 52 crores, while the number of accounts rose faster by 47.5 per cent from 96,304 to 1,42,052 during 1975. As a result, the average credit per account declined from Rs. 4,154 to Rs. 3,661 during the year, thus indicating a larger coverage of relatively small units. The industrially backward States and Union Territories accounted for 42.3 per cent of the total number of accounts and 48.6 per cent of outstanding credit at the end of 1975 against 43.5 per cent of accounts and 50.9 per cent of outstanding credit at the end of 1974. Considering the vital role of transport in the development of infrastructure in these districts, the Bank has liberalised its assistance to transport operators in these districts. The transport operators in industrially backward districts can now purchase up to five vehicles including the existing ones with the help of Bank finance, unlike their counterparts in developed districts who can be financed for the purchase of only one vehicle.

Employment-oriented Lending

Data relating to the Bank's employment-oriented lendings in respect of advances to the priority sectors which have a direct bearing on the creation of additional employment as also in relieving the problem of seasonal and partial unemployment have been kept separately as from June 1, 1971. On this basis, these advances rose from Rs. 91 crores at the end of 1974 to Rs. 140 crores at the end of 1975, the number of accounts and the number of persons employed having gone up from 2.1 lakhs and 3.4 lakhs to 3.7 lakhs and 5.7 lakhs respectively.

In 1975, the Bank made further progress in the implementation of the half-a-million jobs programme for the educated unemployed initiated by the Government. At the end

of 1975, the Bank had provided Rs. 9.12 crores under 10,658 accounts for starting new ventures under the programme employing 14,071 persons as against Rs. 5.28 crores under 6,597 accounts and employing 8,434 persons at the end of 1974.

Differential Interest Rates Scheme

Total advances of the Bank under the differential interest rates scheme of concessional lending to economically and socially backward persons engaged in productive endeavours increased by 68.9 per cent from Rs. 4.5 crores in 1974 to 7.6 crores in 1975 and the number of accounts by 65.8 per cent from 1,08,411 to 1,79,730. During the year, emphasis was laid on lending to persons belonging to scheduled castes and scheduled tribes. By the year end, 52,603 persons belonging to these categories were financed under the scheme and they accounted for Rs. 2.22 crores or 29.0 per cent of such advances.

While assisting the productive endeavours of these borrowers, the Bank generally takes an integrated view of their financial requirements including unforeseen expenses arising from, say, marriage/sickness in families. Considerable flexibility has been introduced in the procedures relating to the repayment of dues. Arrangements are also being made to help the borrowers in getting their supply of raw materials or selling their products with the assistance of reliable intermediaries.

Financing of Foreign Trade

During the year, export credit provided by the Bank increased by Rs. 33 crores to Rs. 200 crores compared to an increase of Rs. 17 crores in 1974. Besides assisting the country's traditional exports, the Bank continued to finance the export of a wide variety of capital goods and turnkey projects to various countries, especially to developing ones. In addition to executing a number of performance guarantees, the Bank provided necessary support to the exporters to enable them to compete successfully in international markets. Further, the Bank extended sizeable assistance to small scale industries in their export effort.

As in the past, the Bank was closely associated with the financial arrangements concluded for the import of crude oil and other essential items. The Banks also assisted in securing substantial foreign currency loans for the purchase of ships.

Overseas Operations

Despite the continuance of recessionary conditions in the world economy, the Bank's overseas offices recorded an all-round growth in business and profits during 1975. The off-shore branch at Nassau (Bahamas), which commenced it operations on April 7, 1975, has been providing adequate support to the growing business of the Bank's New York Branch. A branch of the Bank was opened at Dacca on May 5, 1975. As a step forward in the direction of our efforts to establish a broader international base for the Bank's overseas operations, a full-fledged branch of the Bank started functioning at Chicago on December 29, 1975. Another branch in London in the Golders Green area is expected to commence operations in early 1976. Arrangements are in hand to set up Representative Offices in Bahrain, Moscow and Manila.

The system of budgeting and performance reporting by overseas branches, which was introduced in 1974, is serving as a useful instrument for the efficient management of resources. Computerisation of the operations of both London Office and New York Branch is going apace. With a view to effectively meeting various challenges in international banking business, reorganisation of overseas branches mainly in London, New York and Frankfurt is being studied by an in-house committee in collaboration with an outside consultant. The committee is also examining the question of reorganisation of the International Division, Foreign Department and the international banking operations of the key branches in the country.

Merchant Banking Division

The Merchant Banking Division of the Bank continued its progress in assisting new entrepreneurs as also existing companies in raising resources required for their projects. The Division successfully managed 10 issues involving capital of more than Rs. 18 crores as against 7 issues for over Rs. 3 crores managed in 1974. Notable among these issues were

those of a company promoted by a technocrat and of four companies in the joint sector. The Division is presently engaged in rendering advisory assistance to over 40 projects. The Division also has plans to actively assist some of the State Industrial Development Corporations for promotion of various industries.

State Bank Group

The progress made by the State Bank Group comprising the State Bank of India and its seven Associate Banks during 1975 was as under:

(Amount in crores of rupees)

	1974			1975		
	State Bank of India	Associate Banks	State Bank Group	State Bank of India	Associate Banks	State Bank Group
No. of Offices	3,394	1,719	5,113	3,814	1,814	5,628
Aggregate Deposits	2,688	628	3,316	3,102	716	3,818
Advances	1,747	465	2,212	2,318	576	2,894
to Agriculture	177 (558)	54 (109)	231 (667)	241 (789)	73 (160)	314 (949)
at Agricultural Development Branches						
(i) No. of Branches	131	46	177	163	53	216
(ii) Total Outstandings	38 (201)	12 (53)	50 (254)	64 (297)	19 (70)	83 (367)
to Small Scale Industries	286 (72)	82 (34)	368 (106)	320 (88)	91 (39)	411 (127)
to Small Business	40 (96)	11 (30)	51 (126)	52 (142)	14 (44)	66 (186)
under Employment-oriented Schemes	91	36	127	140	52	192
under Differential Interest Rates Scheme	4 (108)	1 (25)	5 (133)	8 (180)	2 (42)	10 (222)
for Exports	167	31	198	200	41	241
Investments in Government Securities	686	123	809	773	135	908

1. Figures in brackets indicate the number of units in the case of advances to small scale industries, the number of farmers in the case of advances at Agricultural Development Branches and the number of accounts for others. These figures are in thousands.
2. The number of accounts in the case of agricultural advances relates to direct advances only.

INNOVATIVE BANKING

Banks like other public institutions have to strive to effectively respond to the emerging needs of the community in which they function and contribute to the welfare of society. As trustees of the community's financial resources, they have in fact, an added responsibility in this direction. The State Bank of India has been conscious of this responsibility and has, in recent years, initiated measures to generate a proper climate within the organisation for social responsiveness and perception. These measures are intended to (i) bring to bear social orientation on the part of the Bank's employees in operating situations, (ii) encourage the staff to develop operating units as 'local' institutions, and (iii) persuade and support the employees for greater apolitical involvement in community affairs. The necessary attitudinal change is expected to manifest itself in various banking and non-banking programmes and activities.

A fair degree of willing co-operation and enthusiasm of our staff in this endeavour is now in evidence at a number of centres. Entirely new ground has been broken, through imaginative and innovative processes, in identifying and meeting the financial and counselling requirements of various weaker sections of the community like tribals, Harijans, prisoners, ex-prisoners, physically handicapped and disabled, orphans, lepers and slum dwellers and several other categories hitherto not so familiar to the Bank like butchers and bone collectors, hawkers, barter-traders, itinerant vendors, mobile barbers, self-employed and underemployed women, industrial workers, middle class householders, etc., etc. Marketing of our deposit service on school premises on a large scale and lectures to hundreds of college and school students as part of our efforts to expose our employees to the younger generations have also been undertaken. Adoption of slums for implementation of a variety of banking and non-banking developmental programmes, collection of large stocks of unused surplus medicines and clothes from the Bank's staff and outsiders and passing them on to the needy, blood donation drives, eye-cum-surgical and family planning camps, tree plantation programmes and support to steps for developing tree culture are some of the

other activities undertaken by the Bank at a number of centres all over the country.

Special staff has been placed at all the Local Head Offices to help the senior management to promote, support and monitor such and other useful activities of social significance. The results achieved so far are quite encouraging. It is, however, too early to assess the full potential of what has been initiated. Efforts continue to bring about a yet greater social orientation and innovative spirit in our staff.

ORGANISATIONAL AND OTHER MATTERS

Organisational Planning

In order to ensure that organisational capabilities are developed for handling a growing and diversified volume of business efficiently and that the utilisation of manpower and other resources is commensurate with rate of growth and profitability, a detailed study of the Bombay Main Branch, which is one of the largest branches of the Bank, was undertaken with the assistance of the Indian Institute of Management, Ahmedabad.

The skills and expertise developed over the years in the Organisational Planning Department of the Bank are an important resource. The specialised knowledge acquired in the course of introduction and stabilisation of the new organisational design and management control system in the Bank has helped to build up organisational planning capabilities within the organisation. This expertise has been found very useful to some of our Associate Banks in their reorganisation and the introduction of performance budgeting system.

Management Information Systems

A full-fledged Management Information Systems Department was established at Central Office on November 1, 1975 by converting the Management Information Systems wing which was constituted early in 1974 in the State Bank Computer Centre to look after the development of integrated management information systems in the Bank. Similar departments are in the process of being set up at Local Head Offices where they will provide various levels of management with timely and

accurate information in a properly analysed form to aid decision making.

Management Science

The special studies initiated by the Management Science Department in the areas of manpower planning and cost analysis have started yielding results. With a view to achieving optimum productivity of human resources, staff strength at branches is now more closely related to the connected workload. The methodology developed in this regard is being used at all the branches and a concern for better productivity has been generated at the grass-roots level. Reasons for the apparently low level of productivity at a few major branches were analysed by conducting shop-floor studies, which have focussed attention on the need to further streamline the systems and procedures. This aspect is receiving due attention.

Personnel

Sustained efforts continued during 1975 to train as large a number of staff as possible with a view to bringing about optimum congruence of individual training needs and organisational requirements. To this end, the total number of training centres was increased from 25 to 28 during the year, and the total training capacity at these centres from 845 to 1,006 trainees. This is in addition to the training capacity of 108 trainees available at our apex training institution, viz., the State Bank Staff College at Hyderabad. Further, greater emphasis was laid during the year on better utilisation of the training capacity available within the organisation. As against our plans to give institutional training to about 9,000 clerks and 5,140 officers during 1975, training was imparted to 8,217 clerks and 6,239 officers at the various training centres.

The Staff College trained 1,161 Bank Officers during the year, besides imparting training to 440 officers from the Associate Banks. Occasionally, a few officers from other banks also participated in the various training programmes conducted by the Staff College. In addition, three officers were deputed for training abroad and 280 officers to various outside institutions/agencies.

Special efforts were made during the year on improving the quality of training, training strategy and material. The major stress in the programmes was on developing managerial skills. In addition to the standard programmes like those on agricultural banking, industrial finance and branch management, special programmes on Lead Bank Scheme were held.

Arising out of the recommendations of the Study Team Report of 1974 for the effective growth of small scale industries, a number of programmes were held at the Staff College and training centres to improve the skills of the operating staff in the areas of appraisal, follow-up, etc., of the larger of the small scale units, viz., units with limits of over Rs. 2 lakhs.

Of the 1,06,493 employees on the rolls of the Bank at the end of the year, 8,807 (8.3%) belonged to scheduled castes and scheduled tribes. As a result of the concerted efforts to improve the representation of these communities in the various cadres in the Bank by affording various concessions/relaxations, the progress achieved during the last few years has been significant. The share of candidates belonging to these communities in the fresh intake went up from 5.5 per cent in 1971 to 12.8 per cent in 1974 and to 25.5 per cent in 1975.

Staff relations continued to be satisfactory during the year. Discussions were held from time to time with the Staff Federations on various issues concerning service conditions and other matters. Measures initiated to bring about greater sense of discipline, optimum productivity, cost effectiveness and improvement in customer service evoked positive response. This has helped not only to expedite disposal of work, but also to reduce expenses. As compared to the first half, overtime wages during the second half of 1975 showed a decline of 60 per cent.

Customer Service

During 1975, the Bank took a number of steps to improve its service to customers. As complaints from customers serve as an index of the service rendered by the Bank, a permanent machinery has been set up in the Bank to study the complaints received from clients and members of the public with a view to initiating corrective measures for improving customer service.

The Bank has also initiated action during the year regarding most of the recommendations made by the Working Group on Customer Service. Teller system and late-hour counters have been introduced at many branches. Implementation of the recommendations should help, inter alia, in expediting transactions and collection of customers' cheques, quicker remittances, accurate and speedy despatch of statements of account and simplification of procedures for giving loans to the weaker sections of society. Special committees have been set up at Central Office and Local Head Offices, continuously to monitor the progress achieved by branches in this respect, unit level committees with representatives of employees have been/ are being formed to implement the various recommendations of the Working Group on Customer Service.

Progressive Use of Hindi and Regional Languages in the Bank

With a view to meeting the requirements of the Official Languages Act, as also to extend better customer service to the clientele especially in the rural and semi-urban areas, the Bank has continued its efforts to promote the use of Hindi and regional languages in its working. The objective is to use Hindi and regional languages in all those situations where the Bank comes into contact with unilingual customers and thus remove the language barrier in the spread of the banking habit among the rural community.

Considerable progress was made during the year under the 'two-year time bound programme' initiated in April 1974 to promote the use of Hindi in a systematic and phased manner. A glossary of designational terms in Hindi has been prepared and made available to the offices in Hindi speaking areas. More than 80 forms used in transations with customers have been rendered in diglot. Work of compiling a glossary of banking terminology in Hindi is nearing completion. An orientation course in functional Hindi was conducted during the year to train selected instructors from training centres in Hindi speaking areas so that teaching of functional Hindi could be made a part of the general training programme of the Bank. With the objective of encouraging employees of the Bank to learn

Hindi, a scheme for granting honoraria to employees passing Hindi examinations has been introduced.

In order to promote the use of regional languages in the Bank's working in a systematic and phased manner, a two-year time bound programme, on the lines of the one drawn up for Hindi, is being prepared for promoting the use of regional languages in the Bank. This would cover the period from the 1st April 1976 to the 31st March 1978. During the year, 82 officers were trained in regional languages under a scheme of training of Bank Officers in regional languages implemented through the Central Institute of Indian Languages, Mysore.

Besides these promotional steps to ensure progressive use of Hindi and regional languages in the Bank's working, requirements of the Official Languages Act are being met. Press communiques, Gazette Notifications, notices and forms of public tenders are usually issued both in English and Hindi.

Lead Bank Scheme and Role of Rural Banks

L. D'Mello

The lead bank scheme resulted from the area approach to banking development recommended by the Gadgil Study Group of the National Credit Council in 1969. The Study Group had observed that the spread of institutional credit in different parts of the country was uneven.

Branch network and credit disbursement were concentrated in urban and other more prosperous tracts while large areas of the country had very sparse coverage and were more or less neglected by the commercial banks.

Small scale and cottage industries, agriculture and small trade and services could not avail of bank credit for production purposes. To rectify these regional and sectoral imbalances in credit extension, the Gadgil Study Group recommended that certain specific areas should be assigned to commercial banks for integrated banking and economic development.

Accordingly, all districts of the country, excluding metropolitan cities and some Union Territories, were assigned to

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different banks for lead role which involved co-ordination of all financial and other developmental agencies operating in the districts for accelerating economic growth.

The lead banks were required to conduct impressionistic surveys of the districts allotted to them to estimate credit gaps and identify growth centres. It was also anticipated that apart from the initial surveys, there would be continuing studies of banking potential for deposit mobilisation and credit extension.

For the purpose of co-ordination with the other financial agencies, viz., financial institutions and the co-operative credit structure on the one hand and the Government authorities on the other, constitution of the district consultative committee was expected. In other words the lead bank scheme envisaged increasing involvement of the banks in rural development, in a planned and co-ordinated manner.

After the scheme was in operation for about 5 years, an impression had developed that the Lead Bank Scheme had not been able to create as much of an impact as it should have. Following a recommendation of the Western Area Regional Consultative Committee, the Reserve Bank of India appointed two Study Groups in August 1975 to suggest guidelines for effective implementation of the Scheme.

RBI Study Group's Recommendations

The Study Group, which has recently submitted its report has stated that so far as the first task of the lead bank scheme was concerned viz. ensuring swift and wide branch expansion reaching into the rural areas, it has been, by and large, a success. The Scheme has also contributed to the emergence of a pattern of collaborative effort for promoting economic development at the district level.

The impressionistic surveys have been completed in practically all districts of the country and lists of growth centres identified in the surveys constituted the basis for the massive branch expansion programme undertaken by the banks in the

last six years or so. District Consultative Committees have also been constituted in most of the districts.

These committees, on which the Government officers and branch managers of banks and other financial institutions are represented, provide a useful forum for bankers and administrators to meet and discuss subjects of common interest. The discussion at these committees, according to the RBI study groups have tended to be somewhat of a general nature, in the absence of any concrete programme for collective action.

Absence of concrete development programme for collective action is in act the crux of the matter and the success of the lead bank scheme and the organs like the D.C.Cs created thereunder hinges on it. The RBI Study Group has therefore rightly recommended that all the lead banks should arrange to prepare in their respective lead districts either credit plans or a set of bankable schemes which can be implemented quickly.

As a leader of a consortium of financial institutions, the lead bank is expected to ensure that the bankable schemes evolved by it cover as far as possible, all viable economic activities in the district. Schemes formulated by the lead banks should be properly dovetailed with the development schemes of the Government and all financial agencies should co-operate in their implementation.

They are expected to estimate credit demand arising under these schemes and invoke the co-operation of other financial institutions in meeting this. Lead banks should also estimate resource mobilisation in addition to preparing estimates of credit demand with a view to matching the resources expected to be available to the estimated credit needs.

Limited representation of a particular bank in a district does not justify non-participation in implementation of the scheme. In recommending the guidelines, the Study Groups feel that apart from discharging the responsibilities in their own lead districts, it is also necessary that the banks show

greater involvement in their non-lead districts as well. This will help in achieving co-operation between banks in all the districts.

Problem of Small and Marginal Farmers

However much the commercial banks may strengthen their network of branches in the rural areas, it will still not be possible for them to cover a significantly large proportion of the rural poor, who consist of small farmers, marginal farmers, tenant cultivators and landless labourers. The report on Agricultural Census, 1971, makes some significant revelations in this regard.

The marginal and small holdings of less than two hectares which constitute 70 per cent of the total holdings account for only 21 per cent of the cropped area whereas, large holdings of 10 hectares and above which, constitute only four per cent of the holdings, account for as much as 31 per cent of the area. The dominance of small and marginal holdings is likely to continue and account for the bulk of population engaged in agriculture.

Regional Rural Banks

In the context of these conditions, regional rural banks which are being set up in the country may be expected to play an important role in rural credit. Their operational area will be relatively small and their staff is expected to be recruited locally so that they will be familiar with the local conditions and local language. They have been evolved as low-cost and rural-based institutions and are, therefore, eminently suited to implement bankable schemes in the rural areas.

Rural banks are credit institutions and like all other such institutions they would be interested in getting back the loans extended by them. The surest guarantee of this is that the loan must be granted for a productive purpose, that it must result in increased production and that the increased production should be sufficient to repay the loan.

In other words, the loans must be sanctioned for schemes which are technically feasible and economically viable and the

utilisation of the loans sanctioned should be properly supervised, so that the increase in production planned under the scheme is realised.

A credit plan is expected to contain such schemes and the regional rural bank can take up the implementation of these schemes in so far as the benefit under these can be extended to their target-group of population viz., small and marginal farmers or rural artisans. In fact, the preparation of the credit plan will give clear idea to the rural bank about the credit potential that is available in the district in terms of bankable schemes, carefully worked out by the lead bank so that its loaning operations can commence forthwith.

From the point of view of the rural banks thus, the preparation of the credit plan by the lead bank will be highly beneficial. On the other hand, so far as the lead bank is concerned, since the rural banks take over the responsibility for implementation of a sizable proportion of the credit plan, the possibility of full implementation of the credit plan is distinctly improved.

In fact, the lead bank is the sponsoring bank for the rural bank and as such, setting up of the rural bank can be viewed as a suitable strengthening of the institutional structure in the district, which the lead bank is expected to bring about for financing the economic development of the district.

The debut of rural banks in the country, far from disturbing the lead bank scheme, will in fact, assist in the fulfilment of the lead banks' role. The functions of the lead banks and rural banks are complementary.

As the rural banks will be taking up implementation of bankable schemes, it is desirable that they be made permanent members of the district consultative committees in all the districts where they have been set up. This will ensure greater involvement of rural banks in the lead bank scheme.

The opening of rural banks in the districts will remove two great constraints which the banking system has hitherto

been facing in implementing the lead bank scheme, viz., that of an inadequate number of banking offices in remote parts of the country and high cost of servicing small accounts.

Care should be taken to see that branches of rural banks are opened at the centres, which possess business potential as revealed by the credit plan as also predominance of potentially viable small and marginal farmers and rural artisans.

Since the primary function of rural banks is to dispense credit to the poorer sections of population in the rural areas of the country, it would be ideal if these banks would associate themselves from their very inception with development agencies like SFDA, MFAL, TDA, etc., operating in their districts.

It may be possible for the rural bank to promote and adopt co-operative societies for rural artisans, small entrepreneurs and persons of small means engaged in trade and other activities in the area of their operation. This will link up the banking system with the promotional and developmental agencies sponsored by the Government.

The role of district credit plans in the development of the district acquires an added thrust with the introduction of rural banks. The district credit plans are the kingpin of the lead bank scheme. The preparation of credit plans will enable the banks to make a systematic beginning in extending credit on the basis of their resources and felt needs of the people. Rural banks provide the organisational structure required for effective implementation of the credit plans and therefore the lead bank scheme.

(Shri L. D'Mello is the Chief Economic Adviser in the Economic and Statistical Research Department at the Bank's Central Office.)

Current Topics

Investment Climate

Investment activity showed a modest revival in 1975 as reflected in the higher amount of consents for capital issues and capital raised, increase in the financial assistance sanctioned and disbursed by the All-India term-lending institutions, increase in the approvals given by the Capital Goods Committee and the number of industrial licences and letters of intent issued during the year. However, the stock markets continued to remain subdued during 1975.

Consents for Capital and Capital Raised

The declining trend in the amount of capital raised witnessed during 1973 and 1974 was reversed during 1975 when the total capital raised at Rs. 100.97 crores was higher by 53.9 per cent than in 1974, when it had recorded a fall of 10.1 per cent to Rs. 65.62 crores. Consents for issues of capital at Rs. 194.00 crores were also higher by 67.0 per cent than in the previous year, when they had risen by only 9.3 per cent to Rs. 116.20 crores.

TABLE NO. 1

Capital Consents and Issues

(Rs. in crores)

	1974	1975	Variation of 1975 over 1974	
			Actual	Percentage
Capital Consents (excluding bonus shares)	116.20	194.00	+ 77.80	+ 67.00
Capital Issues				
(i) New public limited companies	15.64	22.58	+ 6.94	+ 44.4
(ii) Running companies (total excluding bonus issues)	49.98	78.39	+ 28.41	+ 56.8
(a) Prospectus	22.34	44.89	+ 22.55	+ 100.9
(b) Rights	13.64	15.80	+ 2.16	+ 15.8
(c) Debentures	14.00	17.70	+ 3.70	+ 26.4
Total Issues (I + II)	65.62	100.97	+ 35.35	+ 53.9

Assistance Sanctioned and Disbursed by the All-India Term-Lending Institutions

Sanctions and disbursements by all-India term-lending institutions rose significantly by 24.0 and 43.3 per cent respectively during 1974-75. During the first six months of 1975-76, total sanctions showed a rise of 21.6 per cent over those in the corresponding period of the previous year. Actual disbursements, however, declined by 12.2 per cent during the same period.

TABLE NO. 2

Financial Assistance Sanctioned and Disbursed by Financial Institutions

(Rs. crores)

	1973-74		1974-75		1974-75 (April-September)		1975-76 (April-September)	
	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements
IDBI	172.0	118.2	231.8	167.4	120.3	92.8	140.0@	75.8@
IFCI	40.9	30.2	30.6	37.0	14.5	22.1	23.9	15.4
ICICI	61.1	43.3	62.9	45.4	37.3	20.5	35.7	27.4
Others*	173.6	105.7	229.9	176.3	76.2	64.1	102.2	56.6
Total	447.6	297.4	555.2	426.1	248.3	199.5	301.8	175.2

* Include IRCI, SFCs, SIDCs, UTI, LIC.

@Provisional.

Stock Markets

Ever since the promulgation of the Ordinance restricting dividend distribution in July 1974, the state of the stock markets in the country has continued to remain subdued. The Reserve Bank of India's index of security prices (ordinary shares) (1970-71=100), which stood at 133.0 at the time of promulgation of Ordinance, declined to 105.0 in December 1974. The amendment to the Dividend Restrictions Act passed on May 6, 1975, permitted companies to declare dividends in excess of limit stipulated in the Act; the excess

amount is to be paid in two annual instalments after July 1976. However, this fell short of market expectations and the index touched the lowest level by the end of June 1975. The trend in the index can be seen from the following table.

TABLE NO. 3

Reserve Bank of India's Index Number of Security Prices (Ordinary Shares)-All India (New Series)

(1970-71=100)

Month	1973	1974	1975	1976
January	96.2	117.4	101.9	104.7
February	96.6	122.7	105.0	103.8
March	103.1	125.5	99.4	
April	101.5	128.5	95.2	
May	104.3	132.6	93.7	
June	106.6	132.8	90.4	
July	106.7	133.0*	97.2	
August	109.2	114.0	99.1	
September	118.1	102.9	97.1	
October	123.5	101.5	93.9	
November	127.3	99.4	97.2	
December	117.5	105.0	96.0	

* Figure relates to week ended July 6, 1974.

The down trend in equity prices was halted in July 1975; the major reasons for this were the announcement of the 20-Point Economic Programme to boost the economy as well as encouraging corporate news and institutional support from the Unit Trust of India and the Life Insurance Corporation of India. The process of recovery was accelerated further following the withdrawal of power cuts in many of the States, comfortable conditions in the short-term money markets and improving crop prospects on reports of good monsoon. The raising of the income-tax exemption limit from Rs. 6,000 to Rs. 8,000 was welcomed by the markets. As a result, the index moved up to 99.1 by August 1975. Thereafter the emergence of recessionary trends in certain industries had a dampening effect on equity prices for some period. However, on November 13, the Union Government announced a package of measures to stimulate demand in vital

sectors of the industry. For encouraging the capital markets, the time lag between two successive bonus issues was reduced to 24 months from 40 months. Companies that had issued bonus shares two years ago, thus, became eligible for fresh issue of bonus shares. The stock markets reacted favourably to the announcement of these measures and the equity prices rose from 93.9 at the end of October 1975 to 96.0 at the end of 1975 and further to 103.8 by the end of February 1976.

Prospects for 1976

There are good prospects for the improvement in investment climate in coming months. The state of the economy continues to be quite good. Inflation has been controlled. Agricultural production is expected to show a substantial rise and the growth rate of industrial production is reported to be picking up. As regards investment intentions, indications are encouraging. The approvals given by the Capital Goods Committee in 1975 amounted to Rs. 252.58 crores as against Rs. 243.82 crores in 1974. The number of industrial licences and letters of intent issued in 1975 was 1,027 and 962 against the average of 650 and 880 respectively during the preceding five years.

In the sphere of industrial licensing, the Government has taken various measures with a view to stimulating investment activity and ensuring fuller utilisation of installed capacity. In order to encourage investment, it has been decided to delicense 21 industries. However, firms covered by the MRTP or Foreign Exchange Regulation Act (FERA) would still have to seek industrial licence. In addition, medium entrepreneurs in 29 specified industries have been allowed to use their existing installed capacity without limit, even though this may be in excess of their licensed capacity. Even firms covered by MRTP and FERA regulations can take advantage of this facility if the additional output is meant for export, or is disposed of in accordance with the manner prescribed by the Government. Increase in capacity resulting from replacement of old equipments and modernisation of

plant and machinery has been permitted over and above the normal permissible limit of 25 per cent in excess of the authorised or licensed capacity subject to the condition that it will not result in any encroachment on production reserved for the small scale sector and does not entail any increase in foreign exchange requirements.

The Union Budget for 1976-77 contains a number of measures to stimulate investment and revive the capital market. As against 20 per cent initial depreciation allowance, a broad-based scheme of investment allowance offering a higher rate of 25 per cent of the cost of requisition of new plants and machinery has been introduced for selected industries and small scale industries. Further, relief is also being provided in the surcharge on corporate tax provided it is deposited with the Industrial Development Bank of India. Term-loans granted to the industry for purchase of plant and machinery have been exempted from the interest tax levied under Interest-tax Act 1974. In order to encourage small companies to go in for new capital issues, the exemption limit for additional capital issues (initial and rights) has been raised from Rs. 25 lakhs to Rs. 50 lakhs. The Plan outlay for 1976-77 has been stepped up by 31.6 per cent which is expected to push up private investment. Various concessions given in personal taxation and in excise duties should encourage savings and investment by all, especially middle class investors. The cut of 25 per cent in excise duties on additional production of selected commodities should help higher utilisation as also expansion of capacity of these industries.

The various incentives provided in the Union Budget and the higher Plan outlay in 1976-77 coupled with the climate of industrial harmony, easy availability of vital industrial inputs and improvement in power and transport situation augur well to stimulate investment activity in the coming months.

Legal Decisions

On Banking

Rights of Subsequent Mortgagee for Interim Relief

Amulya Gopal Majumdar ... Appellant

vs.

United Industrial Bank Ltd. and Others ... Respondents

AIR 1974 Calcutta 323

Contributed by N. K. Randeria

The company had mortgaged to the bank its entire movable and immovable properties including factory sheds, godowns and heavy machineries. A vacant portion of the mortgaged land was subject to prior mortgage in favour of the appellant. This portion was auctioned by the Court, in execution of the decree for sale passed in a suit filed by the appellant, to which the bank was not made a party defendant. The appellant purchased the said portion at the auction and made attempts to obtain vacant possession, which were resisted by a lessee, who was inducted for a period of 21 years by a receiver appointed at the instance of the bank, with the consent of the company. Thereafter, the bank filed a suit for redemption of the appellant's mortgage, and in that suit applied for issue of an interim injunction restraining the appellant from taking possession of the portion of the land auction purchased by him.

Rejecting the contention made on behalf of the appellant that in a suit for redemption the Court has no power to grant temporary injunction, the High Court observed that having regard to Order 39 read with Section 151 of the Code of Civil Procedure, the Court has enough powers. The property sold and auction purchased by the appellant was not identical with those mortgaged to the bank. Therefore, the real question was not so much of possession as of preservation of the Bank's security. If the Appellant was allowed to take vacant possession of the property mortgaged to him by removing all structures and fixtures with machineries installed and other movables mortgaged in favour of the bank, then the security of the bank would be seriously in jeopardy and might ultimately be lost altogether. This apart, when the bank was not made a party and its right to redeem the appellant's mortgage, prima facie, appeared to be subsisting, and as the suit for redemption filed by the bank was pending, the High Court thought that the appellant ought not to be allowed to take vacant possession. The only consequence in allowing the appellant to take possession would be that it would ruin the business altogether. A running business undoubtedly would protect the value of the security, if not enhance it. The bank, having a right to redeem the mortgage, was entitled, in the suit of redemption, to ask for appropriate relief for protecting the mortgaged properties. Since, however, the appellant would be out of possession, the High Court felt that the interim injunction should be granted only on the bank depositing in the Court the principal amount with interest due to the appellant.

(**Shri N. K. Randeria** is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I

SELECTED ASSETS AND LIABILITIES OF BANKS IN INDIA

(Rupees in crores)

	Position as on 27-2-1976	A Month ago 30-1-1976	A Year ago 28-2-1975
State Bank of India			
Aggregate Deposits:	3,330.1	3,148.5	2,739.0
Demand (Exclusive of inter-bank transactions)	1,357.5	1,298.9	1,205.5
Time (-do-) ..	1,972.6	1,849.6	1,533.5
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc...	2,630.2	2,425.5	1,901.7
Investments in Government Securities	772.7	772.7	671.3
Associate Banks			
Aggregate Deposits:	742.2	727.8	640.4
Demand (Exclusive of inter-bank transactions)	308.9	304.1	264.3
Time (-do-)	433.3	423.7	376.1
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	583.8	589.0	482.4
Investments in Government Securities	134.3	134.8	124.3
All Scheduled Commercial Banks			
Aggregate Deposits:	13,831.4	13,712.3	11,777.7
Demand (Exclusive of inter-bank transactions)	5,660.1	5,625.1	4,927.6
Time (-do-) ..	8,171.3	8,087.2	6,850.1
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	10,381.0	10,138·6	8,369.7
Investments in Government Securities	3,190·0	3,189.7	2,749.7

TABLE II

SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	December 1975		December 1974	
	State Bank of India	Associate Banks	State Bank of India	Associate Banks
No. of Offices	3,831	1,814	3,409	1,719
Advances				
to Agriculture :				
(i) Direct				
No. of Accounts	7,88,732	1,60,271	5,58,295	1,08,307
Outstandings	176	53	119	37
(ii) Indirect				
No. of Accounts	13,417	3,313	7,864	3,450
Outstandings	65	20	58	17
to Small Scale Industries:				
No. of units	87,716	38,857	71,668	34,115
Outstandings	320	91	286	82
to Small Business :				
No. of Accounts	1,42,052	43,710	96,304	29,673
Outstandings	52	14	40	11
under Differential Interest Rates Scheme :				
No. of Accounts	1,79,730	42,192	1,08,411	25,305
Outstandings	8	2	4	1
for Exports :				
Outstandings	200	41	167	31

TABLE III

SELECTED ECONOMIC INDICATORS

	Position as on 27-2-1976	A Month Ago 31-1-1976	A Year Ago 28-2-1975
	(Amounts in rupees crores)		
1. **Money Supply with the Public** ...	12,463	12,296	11,427
(a) Currency with the public ...	6,607	6,458	6,293
(b) Deposit money with the public	5,856	5,838	5,134
	December 1975	November 1975	December 1974
2. **Foreign Exchange Reserves**			
(a) SDRs* ...	21.20	22.03	23.99
(b) Gold	182.53	182.53	182.53
(c) Foreign Exchange	754.26	947.00	587.40
3. **Money Rates**			
	(Per cent per annum)		
(a) Bank Rate ...	9	9	9
(b) State Bank of India Advance Rate ...	14	14	13½
(c) State Bank of India Hundi Rate ...	14-16	14-16	13-16½
(d) Call Money Rate (Bombay) ...	11.8	11.6	11.1
(e) Bazar Bill Rate (Bombay) ...	21	21	21

*In crores of SDRs.

TABLE III

SELECTED ECONOMIC INDICATORS (Contd.)

		July 1974	June 1974	July 1973
4.	**Index Number of Industrial Production** (1960=100)			
	General Index (Adjusted)	202.1	206.3	197.4
		Week ended 28-2-1976	Week ended 31-1-1976	Week ended 22-2-1975
5.	**Index Numbers of Wholesale Prices** (1961-62=100)			
	All Commodities	284.1	289.5	310.9
	Food Articles ...	307.2	318.3	363.3
	Liquor & Tobacco	329.2	323.2	307.3
	Fuel, Power, Light and Lubricants	367.6	367.7	321.7
	Industrial Raw Materials ..	241.6	250.5	299.2
	Chemicals	312.6	320.8	324.2
	Machinery and Transport Equipment ...	261.6	259.8	255.1
	Manufactures ...	253.4	253.4	254.8
		November 1975	October 1975	November 1974
6.	**Consumer Price Index Numbers for Industrial Workers—All-India** (1960=100) ...	315	316	331
7.	**Foreign Trade**		(Rupees in crores)	
	Total Imports ...	486.3	535.9	331.6
	Total Exports (including re-exports) ...	334.0	285.4	278.6

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I, Babasaheb Bhausaheb Pawar, hereby declare that the particulars given above are true to the best of my knowledge and belief.

(Sd.) B. B. PAWAR

1st March 1976. Signature of the Publisher

ज्ञानं ज्ञेयं परिज्ञाता, त्रिविधा कर्मचोदना।

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Chairman's Speech

It gives me great pleasure to welcome you to the Twenty-first Annual General Meeting of the State Bank of India. This is the first opportunity I am having of meeting the shareholders in New Delhi. Since 1970 we have been holding these meetings in different cities and we have done so in Ahmedabad, Calcutta and Madras. The Annual Report, including the Balance Sheet as on the 31st December 1975 and the Profit and Loss Account for 1975, is already in your hands. We ended the year with higher profits. One significant factor has been a revision as from April 1970 of the rate at which the Reserve Bank reimburse us for our costs on Government business, as a result of the recommendations made by a special committee. Another was a reversal of the trend of spiralling wage costs.

Dividends

You would observe that last year we were obliged to peg down the dividend to Rs. 12 per share in accordance with the spirit of the Companies (Temporary Restrictions on Dividends) Act. During 1975, the Government relaxed the provisions of the Act and accordingly a decision was taken to pay in two equal instalments, in July 1976 and July 1977, a dividend of Rs. 15 per share to make up for the reduction in the normal dividend for 1975 in full and for the dividend of

1974 in part. The final dividend for the year has been retained at last year's level of Rs. 12 per share.

Capital Funds

You will recall that in 1974 a sum of Rs. 20 crores was brought into published reserves from the past accumulations of undisclosed reserves. This was mainly done to improve the ratio of the Bank's capital funds to deposit liabilities so as to move towards a position which would not be out of balance with that exhibited by important foreign banks. Towards the same objective, a sum of Rs. 20 crores has again been brought into the published reserves this year in addition to Rs. 5 crores transferred from the year's profits.

Innovative Banking

In our country, perhaps more than anywhere else in the world today, the banking industry has been called upon to play a critical developmental role which has been put in sharper focus by the Twenty Point Economic Programme launched by our Prime Minister eight months ago. A bank is a community-based organisation and it should take steps, on an ongoing basis, to blend its business goals with social obligations. It should strive to serve the community in more ways than only financial. It has to win the co-operation of the community in which it operates in visualising and devising plans on a broader social canvas, and, what is equally important, in ensuring their successful implementation.

For some time now, we, in the State Bank Group, have been giving serious thought to this matter. We have accepted as our corporate philosophy that the human and financial resources available to us should be mobilised in discharging our social role. This calls for generating a sense of social awareness in our staff at all levels and nurturing in them a new culture of periodically questioning the relevance of our activities to the community's total interests. The banking industry, since the nationalisation of the major banks, has had a policy framework which has enabled it to earmark a larger portion of loanable funds to the priority sectors including

employment-oriented schemes, and lending to the very weak sections at a specially low rate of interest. In addition, what we have sought to initiate are creative and innovative projects which may or may not be regular banking propositions but are essential for development of the community. We have termed our involvement in such projects as "innovative banking". These are not normal banking innovations, but something more.

As illustrations, I would mention to you some programmes undertaken by us, which, by normal standards, would be construed as unorthodox. We have financed prisoners in some jails to take up productive work so that a part of their earnings can be used for their families and dependants. This will also help rehabilitation after their release. At one centre a cardiologist, who found himself behind prison bars, has been financed so that his expert knowledge, which would otherwise have gone waste, is harnessed in the service of people outside the prison with the permission of the authorities. Extending the idea further, the families of some prisoners are being helped to take up gainful activities to support themselves. Ex-convicts are being helped in efforts at self-employment and re-settlement. At one centre we have helped, jointly with a social organisation, several thousand self-employed and under-employed women to increase their incomes. Smaller groups of women elsewhere have also been helped likewise. In urban areas, a programme to provide industrial workers with bicycles has been implemented, the aim being to add to their general comfort and productivity. In yet another instance, municipalities have been financed to enable them to acquire wheelbarrows to spare their sanitation workers the degradation of lifting night-soil and other refuse on their heads. Here, it is not a case of providing higher income, but the expression of a concern to sustain the dignity of fellow human beings. At a number of places, our offices have adopted small slum areas. Here, productive opportunities are identified with the help of inhabitants and other local socially conscious citizens, and finance is provided. Arrangements are made for training identified people in elementary crafts and jobs. Steps are taken to provide clothing, books, medical check-up and medicines to the needy from collections made from the public

and the staff. Talks on hygiene and family planning are organised. In our major offices, we have started drug banks where surplus unused medicines are collected from employees and customers. These are passed on to charitable hospitals. At certain larger centres, staff have been motivated to donate blood periodically in groups and the necessary arrangements are made on the Bank's premises. In an area adopted by one of our branches for intensive agricultural operations, an eye camp was organised by our staff with the help of local service organisations and other enlightened individuals including members of families of the staff. Hundreds of operations were performed at this camp and post-operative care was provided. In another area, a family planning camp was organised. Some more camps are on the anvil.

As part of our attempts to take banking to school premises, not merely in the interest of the Bank but also in the long-term interest of the community members, over two lac students' savings accounts have already been opened. Our officials have talked to hundreds of college and school students in different parts on a wide range of subjects as part of our attempt to expose ourselves to their aspirations and develop friendly relations with them. Similarly, hundreds of factory workers have been motivated to save on the same lines. Some 4,000 kitchen gardens have been financed with the objective of enabling families to have their own vegetables for most part of the year. Financial and other assistance has been rendered to the physically handicapped, harijans, tribals and roadside hawkers as also to orphanages and leper homes. In one rural area, our staff members and their families have taken steps to organise literacy classes for the benefit of the local population. In a few cases, our colleagues have undertaken plantation of trees and are encouraging the local opinion leaders to work to preserve and promote tree culture.

A programme implemented at one place is repeated, with modifications as needed, at other places where similar circumstances exist and the staff have either taken initiative or have been motivated. To identify community needs and to be able to participate in the effort to satisfy them require constant

interaction with various governmental and non-governmental agencies, community leaders and individuals from different strata. One of the aims of the new culture is to develop each branch of the Bank as a 'local' institution, whose presence is felt in the community it serves. Our employees have to develop skills in assessing potential and generate ideas on how all the factors can be brought together to give shape to concrete projects or programmes of relevance to the local community. We are aware that the needs of the community differ from place to place and no central guidelines could visualise the varying needs all over the country. We have, therefore, given a measure of freedom to our regional offices to look out and implement programmes to enrich the life of the community. In comparison with the magnitude of what needs to be done, the experiments made so far pale into insignificance. It is at best a humble beginning. Whatever little may so far have been achieved is qualitative in nature though quantitatively not altogether insignificant. Far more important is the promise that the effort holds for the future-effort being made by our numerous branch managers and other employees, and in fact even by their families. I owe them a word of praise.

Customer Service

The Annual Report briefly mentions the interim recommendations of the Working Group on Customer Service in Banking Industry, covering a wide canvas. It is not my intention to explain these recommendations in detail. The Government of India have already asked the banks to implement the Group's major recommendations while some others are still under examination. Here, however, I would like to deal with a few. The Interim Report recommends the introduction of limited self-supervision on the part of the clerical staff. As matters stand, the job-contents of the clerical staff are of a routine nature. The rationale behind self-supervision is to do away with the checking of the work done by clerks in certain transactions. This would have the effect of giving some discretion to the clerks in the discharge of their duties and cast on them the responsibility for what they turn out. The

hope is that this would give job satisfaction to aspiring employees, incidentally relieving the officers of some of their routine checking jobs, and affording them more time for the developmental aspects of banking. I understand such a practice is already in vogue in the Post Offices and in the Railways. The Interim Report has identified a few areas in which the concept of self-supervision can be tried out. What is more important, however, is a full acceptance of the concept.

Another recommendation is extension of the Teller System. It basically avoids fragmentation of work into various stages presently handled by a number of employees and thus facilitates quicker customer service. Teller System has been in vogue in the State Bank and in a number of other banks for a few years now. When we started it, I must confess, we had some reservations. We apprehended losses. The employees concerned were also not very sure of their own capacity to undertake full responsibility for the transaction from the beginning to the end. The experience, however, has happily belied the apprehensions of the Bank Management as of the employees. I feel that a stage has now been reached for extending the Teller System in a bold way. One hurdle has been the demands for extra compensation. However, once the concept of limited self-supervision is accepted in the interest of the employees themselves, I personally feel that the question of extra compensation need not arise. In the recent past, highly qualified persons have joined the clerical cadres of the banks. These employees are capable of undertaking responsibility in their jobs. Since bank employees are better paid than most of their counterparts elsewhere, and considering the need to groom them for more responsible positions which ought to come their way in due course, there is an urgent need for extension of the concept of self-supervision and a review of the strait jacket of past commitments regarding monetary compensation for every extra bit of responsibility. Here, there is need for a dialogue at the national level.

The problem of customer service ultimately hinges on the attitudes of the bank staff. In a recent survey of the

responses of customers to the service provided by the banks, one finding is that 44 per cent of the customers who responded to the questionnaire said they experienced dissatisfaction most of the time. This should make us sit up and take steps to educate our staff so that the spread of banking habit is not hampered by indifference to customers. Bank employees have responded well to the demands made on them after the declaration of emergency. The response has proved the capabilities of our staff beyond doubt. It has also incidentally confirmed that these capabilities had not been utilised fully in the past. It is now up to the employees' organisations at the levels of individual banks as of industry to sustain the newly found enthusiasm of the employees and canalise it in the service of the customer.

Inter-Bank Co-operation

Concern for customer service is not the only area of common interest of the various banks. Several developments in the banking industry have resulted in the growing interdependence of the various units of the banking industry. Some of the specific areas with scope for closer relationship among the banks are increasing resort to consortium lending, sharing of developmental responsibilities under the Lead Bank Scheme, sharing of information about large borrowers, evolution of common norms for inventories and follow-up of credit, common service conditions for staff, and pooling of training and other facilities. In fact, the interests of the units of the banking industry are so interwoven that no single unit can give precedence to its own interests at the cost of others or the industry as a whole. It was in this context that your Board decided that commencing from the 1st January 1976, we should become a full-fledged member of the Indian Banks' Association. In the background of inter-bank collaboration mentioned by me, it is the duty of each unit of the banking industry to abide by the rules of the game and not to prejudice the long-term interests of the banking industry.

Let us, for instance, take our duty by the depositors to present to them full facts plainly. The year 1975 saw a spurt

of press advertisements by some banks to attract long-term deposits. The advertisements broadly fall in two categories. The first emphasized fabulous rates of interest. The second made offers of costly gifts straightway on certain sums being deposited. Both types of advertisements sought to give the impression that the advertising banks were giving some extra benefit to depositors, although, in fact, nothing of the sort was or could be offered without contravening the Reserve Bank's directives. The Reserve Bank permits payment of a maximum rate of interest of 10 per cent per annum. Further, the banks also pay interest at monthly intervals. In other words, compounding of interest, or interest on interest, is also allowed. Arithmetical jugglery can thus exaggerate even a rate of 10 per cent to work at a much higher "simple" rate depending on the period of deposit. When the very same facilities are offered by all banks, it is not fair for any particular bank to mislead the public by creating the impression that it alone is in a particularly privileged position to do so.

Even worse are the offers made by certain banks of costly gifts or holiday jaunts almost straightway on deposit of certain amounts. What it means in reality is that the cost of the gift or of the holiday is financed out of the depositor's own money. The net effect could well be that the depositor is induced to spend part of his saving on a wholly dispensable luxury when the national need is to curtail expenditure and step up savings. When put wise to truth, the depositor may well spurn the gift or the holiday and opt for his principal to grow into a much bigger amount than under the advertised gift scheme.

In dwelling on this subject my purpose is to go on record as deprecating such questionable tactics as are detrimental to the cause of banking. Of course I am all for healthy competition among banks, but let us do nothing that is derogatory to the common interest of the industry.

Agricultural Finance

The State Bank entered the field of agricultural finance in 1968, and I have year after year dwelt on this subject of utmost national importance in this forum. In my submissions

I have been sharing our experience of the various strategies tried out in the State Bank Group. I would like to highlight some of the lessons that we have learnt during the past 7/8 years. The first lesson was to avoid scattered lendings, which confront the banks with the insurmountable problem of supervision and follow-up of credit. The second lesson flows from the first. We evolved the strategy of intensifying agricultural lending at selected centres in the year 1971. We selected more than 150 such intensive centres and opened our offices at such centres, these branches being now popularly known as Agricultural Development Branches (ADBs). By the end of 1975, the State Bank Group had opened 216 ADBs, a large number of these in areas with preponderance of small farmers. Only such areas as have a sizeable potential of investment lending are selected. A complement of technical officers specialising in agricultural and allied activities is appointed and attached to the ADBs. This technical staff is entrusted with the task of drawing up economically viable schemes, which are then submitted to the Agricultural Refinance and Development Corporation for further scrutiny. The Bank's strategy of opening ADBs has now stabilised and is poised for further growth in the years to come.

The third lesson that we have learnt is that financing of agriculture through ADBs is a costly proposition. Direct lending to the farmers involves heavy expenditure on follow-up. We have felt that the canalisation of credit through approved intermediaries is absolutely essential if the overall cost of agricultural lending is to be kept within limits. The fourth lesson that we have learnt over the years is that finance is not the be-all and end-all for agriculture. Timely supply of other inputs like fertilisers and pesticides, provision of extension services by the local authorities and satisfactory arrangements for marketing the produce have to be arranged in a systematic manner. This points to the need for multi-purpose co-operative societies or farmers' service societies, which can undertake to canalise bank credit to the farmer and also provide other critical inputs and services. Another lesson that we have most recently learnt is that confining our activities to agriculture at the ADBs, though essential in the initial stages,

leaves gaps in the services expected of us by the local community. Accordingly, and in view of the urgency of implementing the Twenty Point Programme, we propose to extend the scope of our rural activities to cover the financing of rural artisans, cottage industries, retail trade and other economic activities in the villages adopted by the ADBs and other branches.

In the field of agricultural finance, the year 1975 witnessed a landmark in the establishment of the first six Regional Rural Banks (RRBs) out of 50 to be established by March 1977. The purpose is to supplement the efforts already being made by the commercial and co-operative banks, combining the strong points of both. The RRBs have been designed as low cost local institutions, obviating two drawbacks from which the commercial banks suffer viz. their high salary structure and the general apathy of their staff to local aspirations. The staff of the RRBs would be recruited preferably from the districts assigned to these banks. These local employees, far from being apathetic, would be psychologically attuned to the local needs and aspirations. Being exempted from the existing awards, settlements and understandings regarding the salary and other service conditions of the staff in the banking industry, the RRBs can pay their staff in conformity with the emoluments of the State Government staff in the concerned districts. Considering the enormity of the need for agricultural finance, the country has to avail itself of all possible institutions with experience in the field. No particular set of institutions can supplant the other. It is, however, desirable to maintain a certain homogeneity among the institutions operating in the field of agricultural finance. I am happy that there is already awareness on the part of the Government that the rate of interest chargeable to the ultimate borrower by the commercial and co-operative banks and by the RRBs operating in a particular area should be uniform. It follows that the administrative costs, comprising mainly the staff costs, should also be more or less uniform for the various institutions operating in rural areas. I would, therefore, plead that the offices of commercial banks established in rural areas and dealing primarily with agricultural

finance should be enabled by suitable legislation to recruit local staff at salary scales applicable to State Government employees. This will enable commercial banks to take up a yet bigger and more beneficial role in this very important task of rural development.

Taking our own case, just a few of the ADBs in the State Bank Group contribute to our surplus. The net result of their aggregate working is a sizeable loss. We are, however, consciously nurturing this strategy in pursuance of the Government's natural expectation that the commercial banking system should undertake direct financing of agriculture in a big way. We take the negative contribution of our ADBs in our stride as cost of our research and development effort. If my submission for lower pay-scales for the staff in our rural branches is accepted, we could do our agricultural lending on a yet wider scale without a further strain on our profitability. Incidentally, it will alleviate the social tension arising from the salary levels of our staff.

With the emergence of the Regional Rural Banks on the rural scene, the problem of avoiding competition and overlapping amongst the various institutions operating in the rural areas has assumed added urgency. I have pleaded in the past that areas should be specifically allocated to the financing agencies on the basis of clusters of villages or allocation of co-operative societies operating in the area. The RRBs could be conducting their operations in two or more adjoining districts, where commercial banks and co-operatives may already be functioning. Allocation of areas as between the commercial banks and co-operatives is itself a problem. The emergence of a third institution in the shape of RRBs would make the problem more involved inasmuch as each of the three institutional agencies must avoid duplicating and/or cutting into the efforts of the other two. The co-operative societies will have to be promoted and strengthened to act as effective intermediaries for disbursement of credit on behalf of the commercial banks, the RRBs and the central co-operative banks. The allocation of these societies among the three agencies needs to be undertaken in a purposive manner, and that this is a

matter to be tackled urgently needs to be appreciated. As regards direct lending, the most convenient method seems to be the allocation of villages in such a way that no two agencies are allowed to operate in the same village. I am afraid the problem of overlapping has already arisen in the area of operation of some of the RRBs being served by branches of commercial banks; the problem becomes more acute when the commercial bank branch has been opened only for agricultural lending like an ADB in our Bank. I feel that the concerned State Governments must deal with this issue on an urgent footing. The initiative in this regard will, of course, have to come from the Reserve Bank of India as the apex institution for agricultural lending.

Changes in the Board

It is with deep regret that I have to record the death in June 1975 of Shri K. S. Karayalar, Member of our Madras Local Board. We miss his mature contributions to our deliberations.

I must also place on record our thanks to Shri B. D. Garware, Vice-Chairman, who relinquished office during 1975, for his able guidance and direction during his tenure of over 10 years on the Central Board. I also place on record our thanks to Shri S. S. Shiralkar, Director on the Central Board who relinquished office in 1975. I welcome Shri P. R. Nangia who has recently joined the Central Board in place of Shri Shiralkar.

Our thanks are also due to Shri N. B. Parikh, Member of our Patna Local Board and Shri R. V. Khode and Shri G. P. Varma, Members of our Bhopal Local Board. They relinquished office during 1975.

There have been additions to our Kanpur and Patna Local Boards. I welcome Shri R. P. Khosla and Shri S. N. Sarkar, who have joined our Kanpur and Patna Local Boards respectively.

End-use of Cash Credits*

R. Viswanathan

The concept of end-use of advances has been discussed so often in so many forums as to create utter confusion in the minds of the enlightened and ignorant alike. Even a former Governor of the Reserve Bank of India, Mr. Adarkar, is reported to have exclaimed in desperation in 1974 that "the end-use of credit is hard to establish and there is no expertise either with the Reserve Bank or with commercial banks to ensure end-use of funds"

It is proposed in this article to dispel some of the patently illogical notions that seem to prevail widely about end-use of bank credit. It is also my sincere opinion, born out of years of association with the cash credit system that the banks have been evolving over a number of years, under the astute guidance of Reserve Bank, a workable system to follow up credit. The emerging concepts and practices have been refined

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* Reproduced from the Economic Times dated the 25th and the 26th March, 1976.

and sharpened in the final report of the Tandon Panel who have inter alia commented extensively on the follow-up of bank credit.

It is stressing the obvious to say that end-use of bank credit would be in order if the credit is put to the use to which it was intended to be put. However, in the esoteric discussions on the problem, this basic concept is not always kept prominently in view. Examining the matter further, one has to see what is the intended use for a cash credit borrowing; obviously, it is for acquisition of current assets, comprising stocks, stores and, in some cases book debts. Ensuring proper end-use implies, therefore, that the bank should be able to detect and prevent, in time, any possible use of credit for acquisition of non current assets.

The much-maligned cash credit system was, in my opinion, originally an ideal vehicle which facilitated easy disbursement of bank credit as also ensured proper end-use of funds. A little explanation would be in order. The cash credit advance is granted for carrying certain levels of current assets comprising stocks, stores, book debts, etc. At the time of the first sanction as also at periodical intervals (usually annual), the level of advance (limit) is fixed by the banker on the basis of the levels of current assets during the material period. While so doing, it is usual to deduct a certain percentage of the value as margin or the amount that is to be financed by the borrower from his own resources and the limit is equivalent to the remainder of the value.

Having thus fixed a limit for a period of say, 12 months, how did the cash credit system ensure that the funds were not misused ? This was sought to be done by the simple device of statements of stocks and, in some cases, book debts which were submitted at, usually, monthly intervals. These statements gave the value of stocks/book debts held by the borrower at any given moment and the borrower is allowed to draw up to a maximum of the value of stocks less the stipulated margin (known as drawing power) or the annual limit whichever is lower. Thus the monthly stock statements and the consequent

computation of drawing power ideally served two purposes : the borrower declared the value of security available and the banker was sure that the borrower was in possession of adequate current assets to cover the advances made from time to time. In other words, the advances were, under normal circumstances, always backed by current assets and the raison d'etre of the advance was fulfilled.

How then did the oft-repeated charge of the misuse of bank credit gain such a wide currency ? The charge was unfortunately, valid in many cases. This arose initially due to a crucial change in one of the vital assumptions in the conduct of the advances. Before granting or renewing a cash credit advance at annual intervals, it is customary for the banker to ask the customer as to how much of the current assets would be financed by trade credits i.e. sundry creditors for purchase. In almost all the cases, where the charge of misuse of bank credit could be levelled, it would be seen that the borrower had obtained a larger volume of trade credit than what he intended to obtain at the time of getting the cash credit limit from the bank. Thus bank credit was more than the borrower's "genuine" credit needs for holding a certain level of current assets and the extra funds thereby obtained were utilised in devious ways by many a customer without the banker finding it out in time. In comparatively recent times, the changes in the level of current liabilities other than sundry creditors and bank credit also introduced an element of distortion and had, in some cases, resulted in the misuse of bank credit.

A classic example of misuse of bank credit could be found in some of the old sugar units. The sugar units obtained cash credits against pledge/hypothecation of sugar manufactured by them. Sugar is a readily marketable product and the scope for inflating the quantity and/or value of stocks is also extremely limited. And yet, there have been and there will continue to be misuse of bank credit by sugar units, if the banker is not vigilant ; the distortion arises due to the quantum of sundry credits i.e. cane payments arrears, outstanding at any time. It is not unusual for many sugar units to owe large sums of money to cane suppliers even after the end of the sugar season

although they have disposed of a major portion of sugar produced and had obtained bank credit against the remainder of sugar stocks. The excessive credit thus obtained was utilised by some sugar factories to invest in sister concerns or to promote the pet white-elephant projects of the Directors of the sugar company. That such misuse of cash credit was widely prevalent is evident from statutory stipulations presently in force in U.P. in terms of which a part of the cash credits to sugar units should compulsorily be set apart for payment of cane dues.

What was prevalent in the sugar industry is only symptomatic of a broader and deeper problem of immense potential in other industries. The experience of bankers in industrial finance has taught them that while granting cash credit limits, one should look to the level of current assets vis-a-vis sundry creditors and other current liabilities of the borrower. The cardinal principle has been that the current assets of a unit—whether it be an industrial or trading concern—should be equal to or preferably more than the value of total current liabilities, including cash credit borrowings from banks.

Even experienced accountants sometimes ask as to why is a banker unduly concerned with the relationship between current assets and current liabilities. For current liabilities, like other liabilities of a business enterprise should be used for financing the assets of a business and a rigid comparison between current assets and liabilities is not, some accountants say, really warranted. What is needed, according to them, is for a business to contract liabilities at the cheapest cost possible and utilise them to the best advantage. But then, bankers and external financial analysts the world over usually consider that if current liabilities of a business are not fully backed by current assets at all times, the concerned enterprise would face a liquidity crunch which could ultimately threaten the very existence of the unit. This is because current liabilities, by definition, are repayable on demand or within a period of 12 months. Current assets, on the contrary, are those assets which are immediately realisable or could be converted into cash within the normal operating cycle of a business. Since any business should be in readiness to meet all its liabilities on maturity, it follows that as

for current liabilities, the business must be in a constant state of preparedness to meet them. The ideal solution would be for the business to have adequate cash at all times to meet fully current liabilities. But the myriad ways of business and prudence do not dictate such a course of action ; it is often enough if an enterprise has sufficient current assets to meet the current liabilities at any moment.

While it is customary for businesses in the U.S.A. and certain other advanced countries to maintain current assets equivalent to at least 200 per cent of current liabilities, Indian industrial units usually aim at parity between the two figures.

However, the Tandon panel has advocated that the bankers should aim, in the second method of lending at least a ratio of 1 .25 between current assets and liabilities.

It may well be asked as to what is the co-relation between the above ratio of 1 .25 and end-use of bank credit. The nexus is simple enough, if before extension of bank credit the current assets are more than the current liabilities by Rs. X, it is for the business to ensure that the surplus is maintained at the same level even after availing of the bank loan; the Tandon panel goes a step further and says that the current ratio should be maintained at a fairly uniform high level. For, only then would the bank loan have been utilised for acquisition of current assets. In some rare cases, bank credit would go to substitute other current liabilities.

It thus follows that bankers, as large purveyors of current liabilities of a business, have to ensure that the relationship between current assets and liabilities is not impaired. The existing cash credit system does not always ensure this. The final report of the Tandon Committee has given an example, to prove the point. The example, with a slight variation is furnished in Table Nos. 1 and 2.

In the example, the level of bank advances and the inventory is the same and the advance, under existing system, could be said to be properly availed of. And yet a crucial change has taken place during the year 1975 and the business had invested Rs. 10 lakhs in another concern. The entrepreneur

TABLE No. 1

(Rs. in lakhs)

XY Company
As on 31-12-1974

Current Liabilities		Current Assets	
Bank loan	10.00	Inventory	15.00
Other current liabilities	5.00	Other current assets	5.00
	15.00		20.00
Net Worth	10.00	Fixed assets	5.00
	25.00		25.00

may well claim that this investment was made possible by obtaining trade credits. The banker is, however, in order in refuting the argument by saying that with the obtention of trade credit, the need for bank advance should reduce pro tanto ; by not reducing the bank advance, the business was enabled to invest in another concern.

In banking parlance, the above example is a clear case of 'diversion' or 'misuse' of bank credit.

For ensuring proper end-use of funds by borrowers, it has been suggested in some quarters that a scrutiny of cheques for large amounts would be a sound method for following up proper use of the amount drawn in a cash credit account. The above example, however, highlights how a superficial follow-up by a scrutiny of cheques issued in the account will not suffice. In the case of XY Company, the

TABLE No. 2

(Rs. in lakhs)

XY Company
As on 31-12-1975

Current Liabilities		Current Assets	
Bank loan	10.00	Inventory	15.00
Creditors for purchases	10.00	Other current assets	6.00
Other current liabilities	5.00		
	25.00		21.00
Net Worth	10.00	Fixed assets	4.00
		Investments in ABC Company	10.00
	35.00		35.00

scrutiny of cheques might not, in all probability, disclose anything untoward, as there has been no change at all in the levels of bank credit as also inventory, which comprised the security for bank credit.

There can be instances where scrutiny of cheques could be dangerously deceptive. For instance, XY Company might have raised a rights issue of share capital amounting to Rs. 10 lakhs intended for investment in a new company to be sponsored by them : the share capital of Rs. 10 lakhs was received and credited in cash credit account on January 10, 1975 and the investment in shares was made on January 25, 1975. A banker scrutinising the cheque on January 25 or perhaps at a later date might be tempted to conclude that bank credit was diverted for investment in an associate concern. The truth is, however, entirely different and the investment was made from additional share capital.

The apparent paradox arises because of the fact that the cash credit system is a combination of loan and current account; as the Americans will put it, the advance is loan with checking facility. The Tandon panel has succinctly summed up its analysis of end-use of credit as follows :

"A question is sometimes raised whether payment of cheques for wages, power, taxes, dividend, etc., by a banker from a cash credit account would be proper end-use of funds lent: If all transactions of the aforesaid nature as also the sales realisations are put through the cash credit account, it would be unrealistic for the banker to differentiate between the purpose of one drawing and another in the account. The only feasible manner in which he can satisfy himself in regard to end-use of funds would, therefore, be to examine the relationship of the borrower's current assets to current liabilities from time to time."

Having thus identified the problem, let us see how the bankers should go about the task of ensuring proper end-use of credit. Before the Tandon panel's report, bankers used to call for the funds flow statement of big borrowers at annual intervals and scrutinise them in advance ; after the end

of the year, the actual funds flow is compared with the estimates and the banker satisfies himself that the funds lent by him have been properly used.

The Tandon panel has recommended that the scrutiny be more comprehensive and done at quarterly intervals. Suitable forms have been devised to follow up not only the end-use of bank credit but also the health of the borrowing unit, since it is axiomatic that a bank's advance is as safe as the borrower's health. The detailed financial scrutiny at quarterly intervals marks, as it were, a historical landmark in the follow-up of bank advances in India and the writer feels that the Tandon committee's recommendations have put Indian banking practices far ahead of the practices prevalent in many other parts of the globe.

The logical conclusion to the financial supervision adumbrated by the Tandon panel would be to do away with the concept of security for cash credits for, after all, security always turns out to be rather illusory in times of crisis. Perhaps, the bankers should obtain a negative charge over the assets and tighten up financial control over the borrowing enterprises. But then, it is somewhat premature to attempt too many things at one time and the concept of security might reign supreme for some more years in the Indian banking system. The concept of end-use is, however, clearer than ever before and bankers are now fully equipped to detect and even prevent possible misuse of credit.

(**Shri R. Viswanathan** is the Additional Chief Officer in the Industrial Finance Department at the Bank's Central Office.)

Current Topics

Union Budget for 1976-77

The Union Budget for 1976-77 presented to Parliament recently reveals an overall deficit of Rs. 368 crores at the existing rates of taxation. With a proposed additional taxation of Rs. 80 crores, of which Rs. 32 crores will accrue to the States, the overall deficit will be reduced to Rs. 320 crores as compared with the actual deficit of Rs. 490 crores in 1975-76. The total receipts and expenditure on revenue account have been placed at Rs. 8,179 crores and Rs. 7,690 crores respectively, leaving a surplus of Rs. 489 crores. Receipts and expenditure on capital account are estimated at Rs. 4,423 crores and Rs. 5,280 crores, showing a deficit of Rs 857 crores.

The 1976-77 Union Budget has been framed in the context of a climate of stability, peace and discipline in the economy, which have created a healthy atmosphere, propitious for pushing up the rate of investment. As a result of the several anti-inflationary measures and improvement in essential supplies, inflationary forces have been held in check, and in fact, prices have been showing a more or less continuous decline since September 1974. Good crop position and atmosphere of industrial peace and discipline following the declaration of Emergency have improved the supply position and cleared the deck for faster growth in future. However, certain pockets of industry have been experiencing slackness in demand and accumulation of inventories. In view of the fact that domestic savings and investment expressed as a percentage of net national product had declined from 13.6 and 14.4 respectively in 1973-74 to 13.2 and 14.2 in 1974-75, it has become most essential to take measures to step up the rate of investment in the economy to stimulate growth.

In this overall context, the Budget seeks to step up the developmental expenditure, encourage savings and investment and stimulate demand for the products of recession-hit industries.

TAX PROPOSALS

Direct Taxation

In the field of personal taxation, the rates of income-tax including surcharge for all slabs of personal incomes have been reduced. The highest rate of 77 per cent has been lowered to 66 per cent. Wealth tax rates have been lowered from one per cent to half per cent up to Rs. 5 lakhs, 3 per cent to 1.5 per cent from Rs. 5 lakhs to Rs. 10 lakhs, 4 per cent to 2 per cent from Rs. 10 lakhs to Rs. 15 lakhs and 8 per cent to 2.5 per cent for over Rs. 15 lakhs. Persons like artists, musicians, etc., who do not have steady income and also pensioners have been afforded certain reliefs. The compulsory Deposits Scheme for income-tax payers presently in operation, is to be continued for another year with certain upward revisions in the rates covering slabs of above Rs. 25,000.

In the field of corporate taxation, certain reliefs have been provided to the industries with a view to stimulating demand, promote new investment and increase production. To give relief for the sharp increase in the capital cost of industries, a new broad-based scheme of investment allowance on the lines of development rebate has been introduced replacing the existing initial depreciation allowance. The scheme will benefit new units as well as those existing units undertaking expansion activities. The new scheme while offering a higher rate of allowance of 25 per cent of the cost of acquisition of new machinery and plant, against 20 per cent initial depreciation allowance now available. The investment allowance will be withdrawn and will become liable to tax if the funds are not utilised for the purpose of acquiring new machinery or plant within a period of ten years. Also the amount will not be available for distribution as profits. The new scheme covers eight more industries in addition to those specified in the ninth schedule to the Income-tax Act. The surcharge of 5 per cent on income-tax presently levied on the companies is being withdrawn, subject to the condition that these companies deposit an equi-

valent amount with the Industrial Development Bank of India for a period of 5 years. Further, the rates of capital gains tax in respect of long-term capital gains derived by companies have also been reduced. With a view to making risk bearing investment in shares of companies more remunerative, the threshold for the determination of chargeable profits under the Companies (Profits) Surtax Act, 1964, has been raised from 10 per cent to 15 per cent of the owned capital employed. Interest received by scheduled banks on long-term loans granted to industries for the purchase of capital plant and machinery has been exempted from interest tax under Interest Tax Act, 1974. The Budget has as a measure of simplification also proposed income-tax at a flat rate of 40 per cent on the gross amount of royalties received by foreign companies from Indian concerns under approved agreements made after March 31, 1976. At present, net income from royalties received under agreements made after 31st March 1961 and approved by the Central Government is taxed in the hands of foreign companies at the rate of 50 per cent plus a surcharge of 2.5 per cent. Further, lump-sum payments received by foreign companies for providing technical know-how outside India under approved agreements will be charged to tax at a flat rate of 20 per cent on the gross amount received by them. Royalties and technical service fees received by foreign companies under existing agreements will continue to be charged on the existing basis, subject to the modification that the expenditure incurred for earning such income will be limited to 20 per cent of the gross payments. Dividends received by foreign companies will be taxed at a flat rate of 25 per cent on the gross amount. Further, head office expenses allowable as deduction against Indian profits are now subjected to specific ceiling limits. To relieve acute shortage of housing, new houses constructed after the 1st April 1976, subject to limitation of plinth area, will be exempted from wealth tax for five years. Initial depreciation allowance of 20 per cent will be available to employers for houses constructed for their low-paid employees.

As a measure of augmenting foreign exchange resources, interest payable by industrial undertakings in India on foreign exchange loans under approved agreements has been exempted

from income-tax. Further, investments made by non-resident Indians in equity shares of certain priority and export-oriented industries are exempted from wealth tax. Indians returning from abroad will be exempted for seven years from payment of wealth tax in respect of their savings abroad repatriated to India.

Indirect Taxation

Excise duties: In the field of indirect taxes, while certain reliefs have been provided in respect of both excise and customs duties, additional duties have been imposed with a view to augmenting resources. As a measure of providing relief to industries hit by demand recession, the duty on non-levy aluminium of the commercial grade has been reduced by Rs. 1,200 per tonne and that on artificial and synthetic resins and plastic materials from the present level of 56 per cent to 40 per cent. The duty on copper has also been reduced by Rs. 1,400 per tonne. Likewise duties on television sets whose unit value does not exceed Rs. 1,800 has been reduced from 20 per cent to 5 per cent. While the duty on medium sized refrigerators has been reduced from 50 per cent to 40 per cent, refrigerating and air-conditioning machinery used for industrial, cold storage and certain preferred purposes will be granted a concessional rate of duty of 20 per cent. While the duty on passenger cars, jeeps, ambulances, pick-up vans and other vehicles of less than 16 H.P. has been reduced by 5 per cent, tyres, tubes and batteries supplied as original equipment with the cars are exempted from duty. The excise duty on caprolactum has been reduced from 50 per cent to 25 per cent. Some reductions have also been made in respect of viscose and acetate yarns which are used in the production of relatively cheap fabrics. Also, some relief in duty has been provided to a number of common consumer items like toilet soap, detergents, stainless steel blades, table and pedastal fans of small size, etc. As an export promotion measure, excise duty on readymade garments has been abolished and some adjustments are being made in the tea rebate scheme. To promote higher production of selected commodities, relief to the extent of 25

per cent of the duty payable on goods produced in excess of production in a selected base year is also being proposed.

To eliminate the inequitable distribution of excise duties on cotton fabrics and to facilitate easy administration of these tariffs, excise duties will be levied on value basis in place of existing specific duties. Certain changes have also been effected in the duty rates of cotton yarn and relief has been provided to the handloom and powerloom sectors. As a measure of protection to the handloom industry against the competition from powerlooms, the rates of compounded levy on powerlooms have been raised. Specific duties in respect of paper and paper boards have also been replaced by ad valorem duties to eliminate certain anomalies. Further, printing and writing paper will also be subject to a duty of 25 per cent ad valorem. Excise duty on patent and proprietary medicines has been raised from 7.5 per cent to 12.5 per cent. Some re-adjustments in the duty structure on cigarettes and higher duty on aerated waters containing blended flavouring concentrates are expected to net Rs. 20.2 crores. Changes are also proposed in the duties on paints and varnishes, acrylic fibre and acrylic yarn, certain electronics items and starch, and a conversion of ad valorem duty on cement into a specific duty.

Customs Duties: As regards customs duties upward revisions have been made in respect of items which would give an added impetus to the domestic industry and mop up the large premia accruing to the industries in certain cases. The duties on imported stainless steel sheets, plates and strips, high carbon, alloy steel, copper and copper manufactures, etc., have been raised. To encourage new investment in fertilisers and newsprint industries, duty on machinery and equipment imported for setting up these industries has been reduced. Also, duty on imported rock phosphate used for manufacture of phosphatic and complex fertilisers is also withdrawn. The basic duty on computers and computer sub-systems has been reduced and totally exempted from auxiliary and countervailing duties. Other items which are being given relief are polyester films used in magnetic tapes, metalised plastic films used in electronic capacitors and sports goods used in national and international competitions.

Plan outlay for 1976-77

The outstanding feature of the Budget is the increase in the magnitude of the outlay. The Budget has proposed a Plan outlay of Rs. 7,852 crores representing a rise of 31.6 per cent over the outlay of Rs. 5,960 crores for 1975-76. Of the outlay of Rs. 7,852 crores, Central Plan outlay will be Rs. 4,090 crores, and the State and Union Territories plans will account for Rs. 3,762 crores. The Central budget provides Rs. 323 crores for agriculture and allied programmes with special emphasis on production programmes with an area approach. This will be supplemented by outlays in the Plans of State and Union Territories to the extent of Rs. 473 crores. Provision has been made in the Central Budget for irrigation and flood control. While the Central outlay for the purposes will be Rs. 20 crores, the outlays of the States and Union Territories will be Rs. 673 crores and will cover major and medium irrigation and flood control. For the development of power, Rs. 129 crores have been provided in the Budget, with outlays of Rs. 1,290 crores in the plans of States and Union Territories. The budgetary support for petroleum and petrochemicals has been stepped up to Rs. 274 crores, with the total plan outlay amounting to Rs. 485 crores. While budgetary allocation for coal industry amounts to Rs. 277 crores, that for fertilisers has been stepped up to Rs. 434 crores. The outlay on steel has been doubled to Rs. 402 crores in 1976-77. The allocation for transport and communications will be Rs. 597 crores. The outlay on khadi, village industries and small scale industries is Rs. 52 crores.

The accent of the Budget is on raising production in vital sectors of the economy and provide stimulus to savings and investment. The various proposals represent a judicious blend of reliefs to the hard-pressed consumers, specific measures to stimulate investment in the private sector industry and measures to provide reliefs to those industries which are hit by demand recession. The increased plan allocations have been judiciously made not only in such priority sectors as agriculture, irrigation and power but also in respect of social services, etc. In the context of overall satisfactory perfor-

mance of the economy, the uncovered budgetary deficit of Rs. 320 crores may not appear to be excessive. However, in view of a faster increase in money supply during 1975-76 and the need to maintain price stability, vigilance has to be kept by exercising a stricter control over non-developmental expenditure and ensuring satisfactory supply position. In this context the performance of next monsoon is likely to be most crucial.

Legal Decisions

On Banking

Machinery Installed on Land or Building — Whether Movable or Immovable Property

Bamadev Panigrahi

vs.

Smt. Monorama Raj

AIR 1974 Andhra Pradesh 226

Contributed by N. K. Randeria

In this appeal the question which arose for consideration was whether the machinery embedded and installed in the earth, by constructing foundations for the purpose, was movable or immovable property. The question was relevant for determining the period of limitation for a suit for declaration of title to, or for recovery of possession of, the machinery. If the machinery was movable property, then such a suit was required to be filed within three years from the date of refusal or denial, but if it was immovable property, then the suit could be filed within a period of twelve years from the date of refusal or denial.

The High Court, after considering the statutory definitions of the terms " movable property " and "immovable property ", stated that movable property would become immovable property if it was attached to the

earth or permanently fastened to anything attached to the earth. The enquiry should be not whether the attachment was direct or indirect, but what the nature and character of the attachment and the intention and object of such attachment were.

After considering several English as well as Indian decided cases on the subject, the High Court felt that the tests enunciated by these cases to determine the character and nature of the property are :—

(i) What is the intendment, object and purpose of installing the machinery — Whether it is the beneficial enjoyment of the building, land or structure, or the enjoyment of the very machinery?

(ii) The degree and manner of attachment or annexation of the machinery to the earth.

As for determining the intendment, object and purpose of installing the machinery, the High Court observed — " Where the machinery and the building or land on which it is installed, are owned by one and the same person, normally it should be inferred, unless the contrary is proved, that the object and purpose of installing the machinery is to have beneficial enjoyment of the entire building or land, but not the sole enjoyment of the very machinery itself. However, where the machinery imbedded or installed and the building or land belong to two different persons, the intendment and object of the person who is in possession and enjoyment of the property in installing or annexing the machinery must normally be presumed, until the contrary is proved, to be to exploit the benefit of the machinery alone, as he is not interested in the building or the land."

Thus, it has to be held that the object and purpose of installation of the machinery by a lessee or a tenant in possession of a building, factory or land was for the beneficial enjoyment of the very machinery during the

period of lease or tenancy and not for making any permanent improvement of the building, factory or land, as the case may be. Again, where the building in which machinery has been installed was not a pucca and permanent one, but was only a temporary shed or tent, the intention and purpose of the owner could only be the beneficial enjoyment of the very machinery but not the building.

Applying the above principles to the facts of the case, the High Court was of the firm view that the intendment, object and purpose of installing the machinery (in this case, cinema equipment and diesel oil engine and their accessories) was only to have the beneficial enjoyment of the very machinery during the period of lease and, therefore, the machinery was movable property.

In the result, it was held by the High Court that the suit for recovery of possession of the machinery filed after a period of three years from the date of refusal or denial was barred by limitation.

(Shri N. K. Randeria is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I

SELECTED ASSETS AND LIABILITIES OF BANKS IN INDIA

(Rupees in crores)

	Position as on 26-3-1976	A Month ago 27-2-1976	A Year ago 28-3-1975
State Bank of India			
Aggregate Deposits:	3,377.4	3,330.1	2,786.1
Demand (Exclusive of inter-bank transactions)	1,433.0	1,357.5	1,244.0
Time (-do-)	1,944.4	1,972.6	1,542.1
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	2,493.9	2,630.2	2,093.5
Investments in Government Securities	813.2	772.7	746.0
Associate Banks			
Aggregate Deposits:	749.6	742.2	649.5
Demand (Exclusive of Inter-bank transactions)	311.6	308.9	276.3
Time (-do-)	438.0	433.3	373.2
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	596.2	583.8	500.6
Investments in Government Securities	136.3	134.3	124.3
All Scheduled Commercial Banks			
Aggregate Deposits:	14,022.8	13,831.4	11,827.2
Demand (Exclusive of inter-bank transactions)	5,743.3	5,660.1	4,962.7
Time (-do-) ..	8,279.5	8,171.3	6,864.5
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	10,817.5	10,381.0	8,761.8
Investments in Government Securities	3,236.2	3,190.0	2,826.4

TABLE II

SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	December 1975		December 1974	
	State Bank of India	Associate Banks	State Bank of India	Associate Banks
No of Offices	3,831	1,814	3,409	1,719
Advances				
to Agriculture:				
(i) Direct				
No. of Accounts	7,88,732	1,60,271	5,58,295	1,08,307
Outstandings	176	53	119	37
(ii) Indirect				
No. of Accounts	13,417	3,313	7,864	3,450
Outstandings	65	20	58	17
to Small Scale Industries:				
No. of units	87,716	38,857	71,668	34,115
Outstandings	320	91	286	82
to Small Business:				
No. of Accounts	1,42,052	43,710	96,304	29,673
Outstandings	52	14	40	11
under Differential Interest Rates Scheme :				
No. of Accounts	1,79,730	42,192	1,08,411	25,305
Outstandings	8	2	4	1
for Exports:				
Outstandings	200	41	167	31

TABLE III

SELECTED ECONOMIC INDICATORS

	Position as on 26-3-1976	A Month Ago 27-2-1976	A Year Ago 28-3-1975
	(Amounts in rupees crores)		
1. Money Supply with the Public...	12,676	12,463	11,557
(a) Currency with the public ...	6,734	6,607	6,378
(b) Deposit money with the public	5,942	5,856	5,179
	January 1976	December 1975	January 1975
2. Foreign Exchange Reserves			
(a) SDRs*	21.20	21.20	23.99
(b) Gold	182.53	182.53	182.53
(c) Foreign Exchange	957.70	754.26	494.77
3. Money Rates			
	(Per cent per annum)		
(a) Bank Rate ...	9	9	9
(b) State Bank of India Advance Rate ...	14	14	13½
(c) State Bank of India Hundi Rate ...	14-16	14-16	13-16½
(d) Call Money Rate (Bombay) ...	12.9	11.8	8.4
(e) Bazar Bill Rate (Bombay) ...	21	21	21

* In crores of SDRs.

TABLE III

SELECTED ECONOMIC INDICATORS (Contd.)

	July 1974	June 1974	July 1973
4. Index Number of Industrial Production (1960=100)			
General Index (Adjusted)	202.1	206.3	197.4
	Week ended 27-3-1976	Week ended 28-2-1976	Week ended 29-3-1975
5. Index Number of Wholesale Prices (1961-62=100)			
All Commodities ...	282.9	284.1	306.3
Food Articles ...	305.2	307.2	355.7
Liquor & Tobacco	312.7	329.2	309.5
Fuel, Power, Light and Lubricants	367.6	367.6	322.0
Industrial Raw Materials ...	241.9	241.6	284.7
Chemicals ...	313.1	312.6	327.9
Machinery and Transport Equipment ...	259.8	261.6	267.0
Manufactures	253.9	253.4	252.2
	December 1975	November 1975	December 1974
6. Consumer Price Index Numbers for Industrial Workers—All-India (1960=100) ...	306	315	326
7. Foreign Trade		(Rupees in crores)	
Total Imports ...	375.0	486.3	439.2
Total Exports (including re-exports) ...	341.8	334.0	318.0

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Oil Crisis and Off-shore Exploration in India

R. Venkataramana Rao

Though the bulk of India's energy requirements are met from non-commercial sources such as firewood and cow dung and commercial sources like coal and electricity, the country has been seriously affected by the "energy crisis" caused by the increase in oil prices, which rose phenomenally from $1.28 per barrel of crude in 1971 to $11.00 by the end of 1974 and further to $11.51 per barrel from October 1, 1975. By far the most important source of energy in the country is firewood, the present annual consumption of which is put at around 130 million tonnes. Apart from firewood, the main forms of non-commercial fuel are vegetable wastes and dried cow dung. Cow dung together with other natural wastes is a valuable potential resource, particularly in the more remote rural areas. It could be utilised much more effectively as a source of fuel (in the form of gas) by the widespread adoption of simple small scale gasification process. This "gobar (dung) gas" process has, therefore, considerable potential.

Consumption of Commercial Energy : Sources and Sectoral Distribution

The chief sources of commercial energy in India consist of coal, electricity and oil. Sector-wise, industry accounts for

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The views expressed in this article are personal views of the author and they do not necessarily represent those of the State Bank of India and its Associate Banks.

53.0 per cent of the total energy consumption followed by transport (24.3%), households (12.4%) and others (including agriculture and service industries) (10.3%).

The degree of reliance on the sources of commercial energy varies from one sector to another. The industrial sector consumes more of electricity (49.9%) and coal (45.0%) than oil which constitutes only 5.1 per cent of its total energy consumption. The transport sector depends heavily on coal (49.2%) since the Indian railways still operate a large fleet of steam locomotives. In the transport sector, oil is used mainly in the form of diesel oil for trucks, buses and locomotives. In the household sector, oil is mainly used in the form of kerosene for cooking and lighting. In agriculture and service industries, over 70 per cent of the requirements are met from electricity.

TABLE No. 1

Commercial Energy Consumption in India: Sources and Sectoral Distribution (1970-71)

(Lakh tonnes of coal equivalent)

Sector/ Source	Industry	Transport (including private transport)	Households	Others (including agriculture and service industries)	Total
Share of each sector in total energy consumption (per cent) ..	53.0	24.3	12.4	10.3	100.0
Coal ..	310 (45.0)	155 (49.2)	49 (30.5)	—	514 (39.6)
Electricity ..	344 (49.9)	13 (4.1)	30 (18.6)	99 (73.9)	486 (37.4)
Oil	35 (5.1)	147 (46.7)	82 (50.9)	35 (26.1)	299 (23.0)
Total ..	689 (100.0)	315 (100.0)	161 (100.0)	134 (100.0)	1,299 (100.0)

Note: Figures in brackets indicate percentages to the total.

It is evident from the foregoing that the sectors which are affected by dearer oil are mainly transport and households where oil constitutes 46.7 per cent and 50.9 per cent of total energy consumption. Since oil accounts for only 5 per cent of the energy requirements of the industrial sector in India, it is relatively less affected by the oil crisis. Besides, oil accounts for only 23.0 per cent of the total energy consumption in India as against 67.1 per cent for the world as a whole, 82.0 per cent for Japan, 80.6 per cent for France and 80.0 per cent for the U.S.A.

However, the increase in oil prices has been very deleterious to the country's economy due to its effects on balance of payments. As a developing country, India is neither in a position to attract petro-dollars nor increase its exports of goods and services to oil exporting countries in a substantial manner.

Dependence on Oil Imports and its Impact on Foreign Trade Situation

With a production of 7.5 million tonnes of crude oil, only one-third of the demand is being met internally, and the country depends on imports for the balance. Petroleum imports to India total 17 million tonnes a year comprising 14 million tonnes of crude oil and 3 million tonnes of petroleum products. Since imports of petroleum products are five times costlier than imports of crude oil, as a matter of policy, the Government has been restricting the import of petroleum products and increasing the oil refining capacity in the country. This is evident from the fact that, while imports of petroleum products in 1974 at 2.96 million tonnes were the same as those of a decade ago, those of crude oil more than doubled from 6.79 million tonnes to 13.97 million tonnes during the same period. For processing crude, the refining capacity has been steadily increased from 0.5 million tonnes in 1948 to 27.0 million tonnes at present.

As a result of the steep hike in prices in recent years, the import bill on account of oil imports rose from Rs. 136.01 crores in 1970-71 to Rs. 1,120.0 crores in 1974-75 and is expected to be Rs. 1,250.0 crores in 1975-76. Between 1970-71 and 1975-76, while the value of oil imports rose faster by 819.1 per cent to Rs. 1,250.0 crores, the value of total imports increased by only 214.5 per cent. Consequently, the share of oil imports in the total imports of the country rose from 8.3 per cent to 24.3 per cent during the same period.

TABLE No. 2

Imports of Crude Oil and Petroleum Products : Impact on Foreign Exchange Position

(Rs. in crores)

Year	Imports of crude oil and petroleum products	Total imports	Col. 2 as percentage of Col. 3	Total exports	Col. 2 as percentage of Col. 5	Balance of trade
1	2	3	4	5	6	7
1970-71 ..	136.01	1,634.20	8.3	1,535.16	8.9	— 99.04
1971-72 ..	194.57	1,824.54	10.7	1,607.01	12.1	—217.53
	(+43.1)	(+11.7)		(+ 4.7)		
1972-73 ..	204.27	1,796.74	11.4	1,960.89	10.4	+164.15
	(+ 5.0)	(— 1.5)		(+22.0)		
1973-74 ..	560.60	2,955.37	19.0	2,523.40	22.2	—431.97
	(+174.4)	(+64.5)		(+28.7)		
1974-75	1,120.00	4,468.10	25.1	3,304.14	33.9	—1,163.96
	(+99.8)	(+51.2)		(+30.9)		
1975-76* ..	1,250.00	5,140.00	24.3	3,800.00	32.9	—1,340.00
	(+11.6)	(+15.0)		(+15.0)		
Percentage increase of 1975-76 over 1970-71 ..	819.1	214.5	—	147.5	—	—

(Figures in brackets indicate percentage variations over the previous year.)

* Estimate.

The value of oil imports which represented only 8.9 per cent of the total exports in 1970-71 rose to as much as

32.9 per cent in 1975-76. The impact of the rising import bill on account of oil is fully reflected in the country's balance of trade which has been deteriorating. The balance of trade, which was favourable to the tune of Rs. 164.15 crores in 1972-73, turned unfavourable in the subsequent year to Rs. 431.97 crores. It deteriorated to Rs. 1,163.96 crores in 1974-75 and is expected to be about Rs. 1,340.00 crores in 1975-76.

A developing country like India cannot afford to fritter away its hard earned export earnings on the import of oil and oil products. In the interest of the country's economic development in general and strengthening its foreign exchange position in particular, efforts for exploring oil need to be intensified. It is in this context that off-shore exploration of oil assumes significance.

Off-shore Exploration: Origin and Progress

In India, the off-shore efforts commenced in an inconspicuous way in 1962 soon after the discovery of oil in the Ankleshwar field and in the Cambay basin. It was surmised that the Cambay basin extends beyond the territorial waters and into the Gulf of Cambay. A team of Indian geologists and geophysicists of the Oil and Natural Gas Commission (ONGC) embarked on a tiny barge called 'Mahendra' with such outmoded equipment as was then available with the Commission and entered the waters of the Gulf of Cambay. The team confirmed that the on-shore Cambay basin extended into the continental shelf off the delta of the river Narmada. A foreign contractor was invited to drill on the discovered structures on the 'Aliabet Island'. But the drill ship of the contractor foundered on the high seas before even reaching the Gulf. The off-shore efforts thus received a minor set-back.

More detailed seismic and gravity magnetic surveys were conducted in the Arabian Sea for pinpointing areas for drilling locations with the help of a Russian seismic ship "Academic Archangelski" which was taken on hire on a two-year contract in 1964. Data collected by "Academic Archangelski"

encouraged the ONGC to make another attempt at Aliabet using fixed type platform.

In 1967, the ONGC obtained from the USSR necessary drawings for construction of suitable stationary platform for drilling. Detailed designing was done in the Hindoil Design Institute, Dehra Dun, in the middle of 1969 and action for procuring materials for the fabrication of platform was also taken simultaneously. In the last quarter of 1969, the construction of platform commenced and was completed at the turn of 1970. The country's first off-shore well was spudded on March 19, 1970 at Aliabet, 45 kms. from Bhavnagar in Gujarat. It, however, proved a non-commercial find.

Sagar Samrat

Academic Archangelski, which discovered about 10 structures on the west coast, submitted its draft report to the ONGC in 1967. One of the structures is called Bombay High, which is about 110 kms. west of Bombay city. The presence of oil in Bombay High led to a controversy whether exploration be left to foreign private oil companies or be entrusted to the ONGC. After deep thought, order was placed for a self-elevating, self-propelled, mobile drilling ship with a Japanese shipyard (Mitsubishi). The Rs. 13-crore drill ship was designed by the U.S. firm Off-shore International. The ship arrived after the onset of monsoon in June 1973 and was christened "Sagar Samrat". It commenced drilling operations in the Arabian Sea area adjoining Bombay. Although the first well drilled with Sagar Samrat on the Tarapur structure encountered high pressure problems, which led to the temporary abandonment of the well, the second well drilled on the Bombay High structure has proved successful. At the shallow depth of 962 to 989 metres, there has been a significant oil discovery.

Bombay High : Prospects

The results from the third well have been more encouraging as it indicated a flow of 2,300 barrels per day compared to 2,000 barrels per day in the second well.

On April 10, 1975, as the Prime Minister, Smt. Indira Gandhi turned a valve on the drilling rig aboard 'Sagar Samrat', oil gushed up from 1,540 metres deep well No. 4 in the Bombay High and was pumped to "Poshak", a naval auxiliary tanker. This first shipment of 500 tonnes of Bombay High crude was delivered to the Bombay refinery of Hindustan Petroleum for test refining.

On May 20, 1975, Shri K. D. Malaviya, the Union Minister for Petroleum and Chemicals, announced that there were positive indications of the presence of oil as well as gas in the fifth well in the Bombay High. The oil find in the fifth well in succession is regarded as a stroke of rare good luck which India so badly needs under the present difficult situation.

The promising results so far have strengthened the expectation that a production potential of two million tonnes per year could be established this year, and in four years, it could be raised to 10 million tonnes annually. On the basis of data collected, the oil reserves are believed to be 1,000 million barrels in the area of Bombay High currently being drilled. This is considered comparable to the results in the North Sea in Europe and the ONGC is already talking of Bombay High having taken its place among the "billion barrels club". However, it has to be noted that the major oil horizon at Bombay High is only 30 to 40 metres thick against 200 metres in the Persian Gulf fields.

Bassein Structure: Encouraging Results

During exploratory-cum-assessment drilling launched by the ONGC on February 11, 1976, a 71-metre thick limestone section containing oil and gas of good quality was encountered in the Bassein structure (64 km. from Bombay) at a depth of 1,714 metres. On May 1, 1976, it was reported that oil was struck in the second of the three off-shore Bassein structures.

The Bassein structures are much smaller than the 2,500 sq. kms. expanse of Bombay High, but their pay

zones (horizons bearing oil and gas) are much thicker. After the discovery of oil at the first structure, the ONGC tentatively estimated the fields' potential at around three million tonnes per year. With preliminary results from the second structure, the estimate can be doubled to six million tonnes. If the third structure turns out to be equally prolific, then Bassein will exceed Bombay High's potential of ten million tonnes per year.

If further testing confirms that productivity per well at Bassein is much higher than at Bombay High, then the build-up of off-shore oil production will be appreciably faster than estimated so far. It might touch 1,20,000 barrels per day (six million tonnes per year) by the end of 1977, and the country's dream of self-sufficiency in oil by 1981 would come much closer to reality.

Off-shore Exploration in Kutch, Bengal and Cauvery Basins

Apart from the Bombay High, there are other off-shore areas which are prospective for oil and gas. The Government of India's off-shore exploration for oil and gas covers an area of about 100,000 square kilometres spreading from the Saurashtra coast to the Konkan coast, and include the Deeper Continental Shelf project covering 20,000 square kilometres. The country's continental shelf has been divided into 10 basins of which the Bombay High basin is reserved for the ONGC. The remaining nine are open for operations by foreign companies in collaboration with the ONGC. Contracts have already been signed with Carlsberg Petroleum for Bengal-Orissa basin, Reading and Bates for the Kutch basin and the Asamera Group for the Cauvery basin.

It is heartening to note that oil has been struck in Bengal basin. The presence of oil in the first well drilled in the Sunderbans structure in Bay of Bengal has been reported by the Natomas Company, operators for the Carlsberg India Group, at a depth of 6,500 feet. This

breakthrough in the off-shore exploration of oil was made 19 days after the well was spudded on September 21, 1975, about 80 miles north-east of Balasore. The presence of oil at a depth of 6,500 feet is considered a very encouraging sign because seismic surveys earlier indicated that oil may be found at a much deeper level.

Outlook for the Future

The promise of large oil reserves in Bombay High, Bassein Structure and Bengal basin has given rise to claims that the country will be able to produce about 30 million tonnes—roughly equal to the country's requirements—by 1980-81. The recent start of commercial production at Bombay High by pumping oil into the 88,000 dwt. tanker 'Jawaharlal Nehru' represents only a fraction of what still remains to be done in the field. Exploitation of off-shore oil is so costly and difficult that it will not be feasible to raise the output substantially unless there is energetic organisation and contracting with well-known foreign companies who can deploy greater expertise. A long time will be required for creating the necessary facilities, if the experience that is being gained in the North Sea basins is any guide.

It is estimated that for the Bombay High project alone, India may have to be prepared for an outlay of about Rs. 880 crores (Rs. 320 crores on drilling platforms and Rs. 560 crores on other supporting installations such as pipelines and shore-terminals), most of it in foreign exchange, over a period of less than five years. The task of finding financial sources of this magnitude is a challenging one; even the giant international oil companies are finding it difficult to raise money. This implies that for meeting the growing energy requirements of the country, the energy policy should aim at increasing output of coal and generation of electricity, besides trying to achieve self-sufficiency in oil as early as possible.

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Indian Rayon Industry

Man-made fibres can be broadly classified into two categories, viz., cellulosics and synthetics. While the former are derived from cellulose, the latter are synthesised from chemicals. Rayon is the first type of man-made fibre which is produced from cellulose.

In the early days, cellulose from cotton linters was used for the manufacture of rayon. With the shortage of cotton linters during World War II and improvement in technology for purifying cellulose from wood, the cellulose required for the manufacture of rayon is now largely obtained from wood pulp.

Important cellulosic man-made fibres include viscose rayon and acetate fibres. The non-cellulosic or synthetic fibres comprise acrylic, polyester, polyamide (nylon), polyethylene, polypropylene, etc. Man-made fibres are manufactured either as continuous filament yarn or staple fibre.

Raw Materials

Wood pulp made from bamboo, coniferous woods, cotton linters and eucalyptus is the basic raw material for the manufacture of cellulosic fibres. Alcohol in the case of acetate fibre and caustic soda and sulphur are the important

raw materials needed in the manufacture of cellulosic fibres. Caprolactum and DMT, both petro-chemical products, are the basic raw materials for the manufacture of polyamide (nylon) and polyester fibres respectively.

Origin and Development

Though the production of man-made fibre fabrics based on imported yarn commenced as early as 1930, the production of man-made fibres in India began only in 1950. The production of viscose filament-yarn commenced in India in 1950, when Travancore Rayon went on stream with a production capacity of 1,820 tonnes per annum. The Gwalior Rayon plant with a capacity of 5,000 tonnes per annum went into production of viscose staple fibre in 1954. The names of the units, their initial and present installed capacity and year of commencement of production are given in the following table:

TABLE No. I

Rayon Industry : Installed Capacity

(In tonnes)

Name of the Unit	Year of commencement of production	Viscose rayon filament yarn		Viscose rayon staple fibre	
		Initial capacity	Present capacity	Initial capacity	Present capacity
1. Travancore Rayon Ltd., Rayonpuram	1950	1,820	3,300		
2. National Rayon Corporation Ltd., Bombay	1951	2,540	9,000		
3. Gwalior Rayon Silk Mfg. (Wvg.) Co. Ltd., Nagda and Mavoor ..	1954	—	—	5,000	78,000
4. Century Rayon, Bombay ..	1956	1,820	7,000		
5. J. K. Rayon, Kanpur	1959	1,800	3,650		
6. Kesoram Rayon, Calcutta ..	1959	1,800	4,635		
7. South India Viscose Ltd., Coimbatore	1961	3,500	4,000	3,500	11,000
8. Baroda Rayon Corporation, Udhna	1962	3,120	3,000		
9. Indian Rayon Corporation, Veraval	1963	2,000	4,500		
Total		18,400	39,085	8,500	89,000

Production Trends

Manufacture of viscose rayon filament yarn rose from 19,193 tonnes in 1960 to 35,834 tonnes in 1968. Since then production has remained virtually stagnant on account of shortage of raw materials. The trend in production of viscose rayon staple fibre and filament yarn is given in the following table:

TABLE No. 2

Rayon Industry : Production

(In tonnes)

Year	Viscose rayon staple fibre	Percentage variation over previous year/period	Viscose rayon filament yarn	Percentage variation over previous year/period
1960	21,779	—	19,193	—
1961	26,061	+ 19.7	21,436	+ 11.7
1962	32,382	+ 24.3	26,237	+ 22.0
1963	32,146	— 0.7	31,221	+ 19.0
1964	36,819	+ 14.5	35,294	+ 13.1
1965	37,151	+ 0.9	35,213	— 0.2
1966	42,769	+ 15.1	33,311	— 5.4
1967	52,136	+ 21.9	34,759	+ 4.4
1968	61,564	+ 18.1	35,834	+ 3.1
1969	58,178	— 5.5	36,515	+ 1.9
1970	63,146	+ 8.5	36,017	— 1.4
1971	60,740	— 3.8	36,819	+ 2.2
1972	70,337	+ 15.8	39,633	+ 7.6
1973	62,627	— 11.0	36,661	— 7.5
1974	72,291	+ 15.4	34,622	— 5.6
1974 (Jan.-June)	37,920		12,360	
1975 (Jan.-June)	34,640	— 8.6	14,760	+ 19.4

Production of viscose rayon staple fibre rose almost steadily from 21,779 tonnes in 1960 to 70,337 tonnes in 1972. In 1973, however, production fell to 62,627 tonnes on account of prolonged strike in Gwalior Rayon plants and shortage of pulp. However, it picked up to 72,291 tonnes in 1974. During the first six months of 1975, production at 34,640 tonnes was lower by 8.6 per cent than in the corresponding period of the previous year.

Demand : Projections for 1978-79

The present demand for rayon fabrics is estimated around 100 million kgs. A rapid progress has been envisaged in the production of man-made fibres and fabrics in India in the present decade. The Task Force on Synthetic Fibre Industry set up by the Planning Commission has estimated that the demand for man-made fibres by the end of 1978-79 would be 322.50 million kgs. per annum, comprising 185 million kgs. of rayon fibres and 137.50 million kgs. of synthetic fibres.

Viscose Filament Yarn : Dependence on Imports

While the entire requirement of wood pulp for the production of viscose staple fibre is indigenously met, nearly 60 per cent of the rayon grade pulp required for production of viscose filament yarn is imported. The difficult foreign exchange situation has restricted the import of this basic raw material and, as a result, the production of viscose filament yarn has been virtually stagnant since 1968. The trend in imports of pulp from 1950-51 is given in the following table :

TABLE No. 3

Imports of Pulp into India

Year	Value (Rs. in crores)
1950-51	0.41
1955-56	2.34
1960-61	5.99
1961-62	6.18
1962-63	9.31
1963-64	9.32
1964-65	7.32
1965-66	5.61
1966-67	9.74
1967-68	10.31

TABLE No. 3 (Contd.)

Year	Value (Rs. in crores)
1968-69	10.43
1969-70	12.47
1970-71	12.26
1971-72	9.52
1972-73	9.92
1973-74	9.27
1974-75*	9.76

*(April 1974-February 1975)

Licensing Policy

The Government's policy in regard to rayon industry is to consider only integrated schemes for the manufacture of both fibre and pulp. This is due to the fact that there is shortage of rayon grade wood pulp in the country. There are at present three units engaged in the manufacture of rayon grade wood pulp, viz., the Gwalior Rayon's plant in Kerala, the South India Viscose in Tamil Nadu and Harihar Polyfibre in Karnataka. The Government of India has issued letters of intent to Century Pulp for a plant in Uttar Pradesh with a capacity of 30,000 tonnes per annum, to Modipon Limited for a plant in Jammu and Kashmir with a capacity of 45,000 tonnes and to Suraj Industrial Packing Limited for a plant in Uttar Pradesh with a capacity of 30,000 tonnes.

The economic size for a rayon grade pulp plant is reckoned at 100 tonnes per day and would need a total capital outlay of Rs. 15-20 crores. In view of the high capital costs and the none-too-encouraging average selling price of the products, the progress in the implementation of new schemes has been slow.

Pricing and Distribution: Controlled by Voluntary Agreements

As regards the distribution of staple fibre yarn, under voluntary price regulation scheme, the spinning mills in North India represented by the Man-made Fibre Spinners

Association, Bombay, and those in South represented by the Southern India Mill Owners Association (SIMA), Coimbatore, supply 100 per cent of the production of the staple fibre yarn to the actual users at the prices agreed under the voluntary arrangements between the spinners and weavers. The Man-made Fibre Spinners Association allocates the production of their members to the actual users on the basis of quantum recommended by the State Directors of Industries, while the SIMA allocates the staple fibre yarn directly to the actual users on the basis of past average consumption. In view of the easy availability of viscose staple fibre in the country at present, the Government has decided, effective from April 1, 1976, to decontrol the distribution of viscose staple fibre.

Spinning Sector vs. Weaving Sector

Unlike the cotton textile industry which has composite weaving and spinning units, the rayon industry is composed of independent spinning and weaving sectors. The existence of two separate sectors and their conflicting interests have created problems in the distribution of rayon yarn. When the market is slack, the weavers are not always enthusiastic about lifting yarn. On the other hand, the spinners also do not stick to agreed delivery dates when market conditions are unfavourable to them. Despite inquiries by the Tariff Commission or other attempts by the Government to regulate the commercial relations between the spinners and weavers, the prices of yarn and its distribution are governed by voluntary agreements between the spinners and weavers. Essence of these agreements, which apply to staple fibre yarn, has been that the spinning sector consents to provide and the weaving sector agrees to lift a certain percentage of fibre production at a negotiated price. Additional percentage of fibre production is made available by the spinners to the exporters of rayon fabrics at a specially low rate.

Exports

With a view to improving the competitive position of Indian rayon fabrics in international markets, the exporters are being supplied with rayon yarn at concessional prices. The rayon spinners are supplying 25 per cent of their production as export replenishment yarn at concessional prices. As a result of this, exports of rayon fabrics increased from Rs. 1.97 crores in 1969-70 to Rs. 21.00 crores in 1974-75. The trends of exports can be seen from the following table :

TABLE No. 4

Rayon Industry : Exports of Rayon Fabrics

Year	Rs. in crores
1969-70	1.97
1970-71	2.80
1971-72	3.96
1972-73	6.31
1973-74	17.17
1974-75	21.00

Of late, the performance on the export front has been discouraging as the rayon business in international markets has shrunk considerably. It is reported that it will take considerable time to revive the market.

Profitability: Encouraging

As one of the younger industries of the post-independence period, the rayon industry has had a relatively favourable profit experience and its profitability has been much above the average compared with the industrial sector as whole. Data obtained from the Reserve Bank's study of company finances confirm this point.

TABLE No. 5

Rayon Industry : Profitability Ratios

Year	Gross profits as percentage of sales		Gross profits as percentage of total capital employed		Profits after tax as percentage of net worth	
	Silk and rayon textiles	All industries	Silk and rayon textiles	All industries	Silk and rayon textiles	All industries
1965-66 ..	19.2	10.7	17.6	10.1	14.3	8.9
1966-67 ..	22.8	10.5	21.9	9.8	18.5	9.1
1967-68 ..	21.6	9.2	19.9	8.6	17.4	7.3
1968-69 ..	18.8	8.8	17.5	8.5	17.4	7.0
1969-70 ..	20.8	9.6	18.1	9.6	17.7	9.5
1970-71 ..	18.4	10.3	20.7	10.4	16.2	11.2
1971-72 ..	15.9	10.0	17.6	10.4	14.9	10.5
1972-73 ..	15.2	9.5	17.3	10.3	13.9	10.3
1973-74 ..	18.4	10.5	20.5	11.0	16.0	11.9

Plant and Machinery: Self Reliance

In respect of manufacture of plant and machinery, one of the units, namely, Gwalior Rayon has not only achieved self-sufficiency but has also emerged as a competitive supplier of plant, equipment and know-how for the staple fibre, wood pulp and allied industries in the international market. The engineering division of the Gwalior Rayon is now in a position to supply complete plants for producing staple fibre. The Gwalior Rayon has, in the face of stiff world competition, already supplied one staple fibre plant to South Korea and is in a process of shipping another to Thailand.

Man-made Fibre: Growing Importance

All over the world, the man-made fibre industry has emerged as the basic material of peoples' clothing. The share of man-mades in the world textile fibre production was only 19 per cent two decades ago. Today, it has scaled a height of 42 per cent and it is estimated that

towards the close of seventies, it will cross the 50 per cent mark. The cellulosic fibres are particularly suited to the requirements of communities with relatively low incomes. Besides, cellulosic fibres have bright finish and are known as "poor man's silk".

Decentralised Weaving Sector: Main Drag on the Industry

Despite its growing importance, the major problem faced by the rayon industry in India is the existence of a highly decentralised weaving sector which comprises about 1,11,652 powerlooms and 1,30,000 handlooms. The decentralised sector, which does most of the weaving of rayon yarn, consists of small units. These units are family concerns doing job work for merchant financiers who supply them with raw materials and money, and buy back the grey fabrics for being processed elsewhere. It is found that only 60 per cent of the installed capacity in the decentralised weaving sector has been utilised mainly on account of shortage and high prices of yarn.

The factor which has contributed to the higher cost of production in the man-made spinning industry is the uneconomic size of the units. The capacity of the units in the country ranges from 10 to 30 tonnes per day as compared to capacities of 50 to 200 tonnes per day in the developed countries. The industry being highly capital intensive, it would seem necessary that the size of the unit should be such as to ensure reasonable economies of scale. A plant with a minimum capacity of 25 to 30 tonnes per day is considered to be an economic unit under Indian conditions. There is, therefore, considerable scope for scaling down the cost of production by raising the scale of operation to 30 tonnes per day or 9,000 tonnes per annum of viscose filament.

The Government has also subjected the man-made fibre industry to a heavy burden of fiscal imposts. There is a heavy import duty on the import of basic raw materials

and excise duties on the manufacture of staple fibres, spun yarn and filament yarn. The tax burden has been partly responsible for the high prices of fibres, yarns and fabrics. The following table regarding the cost structure of rayon industry brings into focus the role of excise duty in the cost of production of man-made fibre industry.

TABLE No. 6

Man-made Fibre Industry : Cost Structure

Item	Percentage to total value of production 1972-73	1973-74
1. Raw materials	26.98	27.27
2. Power and fuel	5.09	5.11
3. Other manufacturing expenses	7.38	7.10
4. Salaries, wages, bonus and management salary ..	10.63	10.76
5. Excise duty	25.75	23.92
6. Depreciation	5.57	5.12
7. Interest	5.29	4.97
8. Other expenses (including selling commission) ..	1.48	1.31
9. Profit before tax	11.83	14.44
Value of production	100.00	100.00

It will be observed from the above table that excise duties account for nearly one-fourth of the total value of production of the man-made fibre industry and rank next only to cost of raw materials consumed. While raw material cost accounted for 26.98 per cent of the total value of production in 1972-73, the share of excise duties at 25.75 per cent was only a shade lower. The decline in the share of excise duties in the total value of production in 1973-74 was due to higher sales realisations and not due to a reduction in excise duties.

The weaving units in the decentralised sector are located mainly at Bombay, Bhiwandi, Ludhiana, Amritsar, Surat, Ahmedabad and Bangalore. About 40 per cent of the registered powerlooms are located in Gujarat State

alone. Gujarat, Maharashtra and Punjab together account for as much as three-fourths of the looms in the country. The weaving units have acquired regional specialisation. Ludhiana specialises in weaving staple fibre cloth with narrow widths. Bhiwandi and Surat, on the other hand, produce mostly grey nylon and rayon fabrics of width up to 48 inches.

What causes greatest concern is the pronounced under-utilisation of capacity in the decentralised sector. Though inadequate supply of yarn has been often stated as a factor for under-utilisation of capacity, the fact is that the decentralised weaving sector is loaded with obsolete machinery. The Silk and Art Silk Association has estimated that rehabilitation and modernisation in this sector would involve a total outlay of Rs. 120 crores including Rs. 39 crores in foreign exchange. Apart from finding resources, the future of the weaving sector lies in organising itself into viable units. One of the ways for achieving this is the development of co-operative industrial estates wherever possible. An approach along these lines would help to eliminate many of the abuses which seem to be widely prevalent in the weaving sector. The distribution of yarn among actual users, for instance, could be effected in a more orderly manner which would restrict the scope for corrupt dealings or malpractices of various kinds.

Conclusion

It is clear from the foregoing that the rayon industry in India has had an enviable record of high profitability and has achieved not only self-reliance but also capability in exporting plant and machinery. However, the filament yarn section of the industry has tended to stagnate in recent years as it has to depend on imported wood pulp. Though letters of intent have been issued for setting up pulp plants, the progress in implementation has been tardy due to high capital costs and compulsion of the Government on the pulp manufacturers to produce fibre or yarn. The Government's licensing policy of approving only integrated

schemes for the manufacture of both fibre and pulp needs reconsideration. Since investment on an integrated project would be heavy, the entrepreneurs are shy of setting up new units. As the future growth of the rayon industry is closely associated with the fortunes of the weaving sector, it has to be strengthened both organisationally and technologically. Though on the export front, the situation at present is somewhat discouraging, the prospects appear to be good. This is due to the fact that developed countries have either scrapped or closed down their plants for an indefinite period due to uneconomic working. Thus, there is plenty of scope for increasing exports. As the industry has made rapid progress in self-reliance since independence, the Indian rayon industry stands out as a good example of the innovative spirit.

The Import Policy for 1976-77

Against the background of the emergence of an overall economic climate conducive to faster growth, the import policy for 1976-77 announced by the Union Commerce Minister in the Lok Sabha on April 14, 1976, embodies a number of liberal, innovative and flexible features. The policy also reflects the trust reposed by the Government on entrepreneurs in increasing production and launching a dynamic export drive. The allocation of imported raw materials by canalising agencies directly to the actual users without any release orders from the licensing authority, the liberalised open general licence, larger import replenishments and liberal imports of machinery, are some of the important features of the new policy. The policy also takes into account the needs of the small scale sector in a more positive manner. Further, bold steps have been introduced to streamline and simplify procedures.

Automatic Licensing

During 1975-76, a system of automatic licensing was introduced for the actual users under which imports of raw materials, components, etc., were permitted without having to go through the sponsoring authority. In view of the need for encouraging increased production, it has been decided to continue the system of automatic licensing and to make it more flexible. Those industrial units which

need additional quantities of raw materials, components, etc., can also approach the licensing authorities for issue of supplementary licences through their sponsoring agencies, the same way as last year. The list of 'select' industries which can obtain supplementary import licences has been enlarged to include traditional foreign exchange earners such as coffee, tea, jute and cotton textiles.

Imports through Canalised Agencies

An important innovation in the policy is the scheme for the supply of selected canalised items directly to actual users by the state trading agencies without the former having to obtain release orders from the licensing authorities. About 43 items will be supplied under this scheme, i.e., 11 by the Minerals and Metals Trading Corporation, 8 by the State Chemicals and Pharmaceuticals Corporation (a subsidiary of the State Trading Corporation) and 24 by the Steel Authority of India Limited (SAIL). The actual users will be required to apply directly to the canalising agencies on a prescribed application form indicating their requirements for the period not exceeding 12 months and certifying that these are required for use in their own units. If these agencies are unable to supply the required raw materials, the actual user can apply to the licensing authority for a direct licence.

Open General Licence

Another highlight of the import policy is in regard to the facility of open general licence for import of raw materials, components and spares. Import of leather machinery has been placed on open general licence. In view of the vast potential which exists for the export of leather goods, this measure of import of a wide variety of machinery needed for manufacturing leather footwear and leather goods is welcome. Some iron and steel items have also been added to the list. Besides, the units situated in free trade zones at Kandla and Santacruz will get their import of raw materials, components, etc. on open general licence.

Export Products and Replenishment Schemes

Some important changes have been made in the policy in regard to registered exporters with a view to facilitating the expansion of the export production base and strengthening export product itself. The import will now be permitted of even those raw materials and components which are available internally but whose domestic prices are higher than the international prices or whose quality is poor or availability inadequate. On these considerations, new items have been allowed for import against 129 export products, higher import replenishments have been given in the case of 83 export products and 46 new export products have been added to the list of exports which qualify for import replenishment.

Import of Machinery

Further, the manufacturers engaged in the export production have been permitted to use the entire import replenishment entitlement for import of machinery required for replacement, modernisation, research and developmental purposes and for import of jigs, tools and testing equipment. Hitherto, there were upper value limits up to which such goods could be imported against import replenishment licences. These limits have now been removed. The advertising procedure has also been waived in the case of imports of machinery valued up to Rs. 15 lakhs.

Export Houses

Under the export house scheme an export house can now obtain 'an export house certificate' by making an application only to the Chief Controller of Imports and Exports. The tedious procedure of first obtaining recognition certificate from the Commerce Ministry and then eligibility certificate from the Chief Controller of Imports and Exports has been done away with. However, the minimum qualifying export performance for becoming an export house has been raised from Rs. 25 lakhs to Rs. 50 lakhs for products categorised as 'select list of export

products'. For other products, the minimum is Rs. 3 crores of exports. For a manufacturer-exporter in the small scale sector and for consortium of small scale units applying for export house certificate, the minimum export performance will however, be lower at Rs. 25 lakhs and Rs. 2 crores respectively. Export houses will continue to be under obligation to export products manufactured by small scale sector to the extent of 5 per cent of their total exports or Rs. 25 lakhs, whichever is less. Along with this, certain incentives have also been provided for those export houses which promote exports of products made in the small scale sector.

Spare Parts

The new policy simplifies to a great extent procedures for import of spare parts by actual users. Clearance for importing can now be obtained on the basis of declaration by the party confirming that the spare parts are required for maintenance of machinery. The value limit for import of non-permissible spare parts has been raised from 10 to 20 per cent of face value of licences though stipulation regarding value of a single spare part not exceeding Rs. 50,000 remains unchanged.

Customs Duty

The policy contains a new scheme under which imports of raw materials and components for export production will be allowed without payment of customs duty against advance licences. To begin with, it will apply to imports of 55 specified items. The facility will be available in all cases where an advance licence for raw materials and components is claimed in the name of manufacturer whether he is himself an exporter or has been named by export house or merchant-exporter which receives export orders.

Small Scale Industries

The new policy has taken a very helpful attitude towards the needs of the small scale industry. All small

scale units, whether engaged in select or other industries, will get import licences for materials and components of value which is 20 per cent higher than is ordinarily permitted. This will greatly reduce the need for them to apply for supplementary licences. The present system of capacity assessment on a single shift basis will continue. However, as a measure of further facility for the small scale sector, the policy provides that capacity assessment can be made on a more than single shift basis, where continuous production is involved or where the situation in industry so warrants. Also, small units will now be able to get licences up to Rs. 50,000 in free foreign exchange, as against Rs. 10,000 hitherto. Up to this value, no consumption certificate will be required to be produced. The facilities available to small scale units set up in backward areas and those set up by engineering graduates, science graduates, diploma holders in engineering and ex-service personnel would continue. The value of licences to this category of entrepreneurs has been increased. Further, these facilities have been extended to the units established by persons belonging to scheduled castes and scheduled tribes.

The salient features of the import policy of 1976-77 described above clearly reveal that the emphasis has shifted from import substitution to export production. Despite the considerable expansion witnessed in our export growth in recent years, our trade gap continues to widen as the rate of growth in imports outpaces that of exports. In 1974-75, the gap was as wide as Rs. 1,164 crores. During 1975-76, the deficit is likely to widen still further despite the overfulfilment of the export target of Rs. 3,600 crores. Though the foreign exchange position is comfortable on account of the larger inflow of foreign aid and increased invisible earnings, the medium-term outlook for balance of payments situation continues to be uncertain. Though the official sources have claimed that total import bill for the current financial year might not go up in view of the proposed liberalisation, this by itself will not ensure continued viability of our external payments situation unless

concerted efforts are made to raise the rate of growth of exports. An annual increase in exports of at least 10 per cent in volume in the coming years as against 6 to 7 per cent in quantitative terms achieved in 1975-76 is the minimum that should be ensured for not only paying for our imports and debt repayments, but for earning surpluses for our economic development. In this context, it is heartening to note that the import policy for 1976-77 has taken bold steps in liberalising a number of measures for achieving an increased rate of growth in production and export. It is for the industry—both private and public sector—to make the fullest use of the advantages conferred on them by the policy.

Legal Decisions

On Banking

Order of Attachment - Rights of Attaching Creditor

Rikhabchand Mohanlal Surana

vs.

The Sholapur Spinning and Weaving Co. Ltd.

76, Bombay Law Reporter 748

Contributed by N. K. Randeria

A short but interesting question which arose for consideration in this appeal was : what are the rights of an attaching creditor when the garnishee (debtor of the debtor) has deposited the attached amount in the Court?

The creditor had obtained a decree against the company in respect of the price of certain goods supplied and which had remained unpaid inspite of demands. In execution of the decree certain moneys in the hands of the Company's Bankers (garnishee) were attached. The garnishee deposited the attached amount in Court pursuant to the garnishee order.

The High Court pointed out that in England the Court, by issuing a writ, commands the Sheriff to seize the goods and bring them to the Court; in India the Court levies attachment by issuing a prohibitory order, which basically restricts or restrains the alienation of the attached property. Therefore, in England as soon as the garnishee order is served the attaching creditor becomes a secured creditor, but in India that would not be so merely on the serving of the garnishee order. However, the position in law in india would not be unlike that prevailing in England when pursuant to the order of attachment or by the coercive process, the moneys attached by the Court are actually brought into the Court. In the opinion of the High Court, although so long as the attachment order is of a prohibitory nature, the creditor may have no rights or security in the property; once the moneys are brought into the Court the attaching creditor is entitled to insist that those moneys should be handed over to him in satisfaction of his decree. The High Court agreed with the statement in Halbury's Laws of England that "the judgment creditor is entitled to insist on payment to himself by the garnishee".

The High Court observed that an order of attachment simpliciter did not create any charge or lien on the property attached because such an order was invariably of a prohibitory nature. "In the case of immovable property it must obviously be so. In the case of movable property it may ordinarily be so." But after the property or moneys have been brought into the Court, as pointed out by Bovill C. J. in Culverhouse vs. Wickens (1868) L.R. 3 Court of Com. Pleas 295, the creditor has a lien thereon. A lien is a right to retain possession of a thing unless the claim is satisfied. There will be no lien where there is no possession either actual or constructive. Therefore, when the attachment is only by a prohibitory order then the attaching creditor has no rights in the property attached, but once the property or moneys come into the possession of the Court then it would follow that they are constructively held by the Court for the attaching creditor. The attaching creditor, having taken steps to obtain payment against the decree, cannot be told that

the Court is holding moneys not for him but for the debtor, more so when the garnishee obtains complete discharge by making payment in Court.

In the result the attaching creditor was held to be a secured creditor.

(**Shri N. K. Randeria** is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I

SELECTED ASSETS AND LIABILITIES OF BANKS IN INDIA

(Rupees in crores)

	Position as on 30-4-1976	A Month ago 26-3-1976	A Year ago 25-4-1975
State Bank of India			
Aggregate Deposits:	3,391.5	3,377.4	2,819.5
Demand (Exclusive of inter-bank transactions)	1,377.5	1,433.0	1,234.0
Time (-do-)	2,014.0	1,944.4	1,585.5
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	2,644.7	2,493.9	1,962.7
Investments in Government Securities	852.3	813.2	764.6
Associate Banks			
Aggregate Deposits:	765.9	749.6	667.8
Demand (Exclusive of Inter-bank transactions)	322.7	311.6	282.3
Time (-do-)	443.2	438.0	385.5
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	620.9	596.2	498.4
Investments in Government Securities	138.8	136.3	124.4
All Scheduled Commercial Banks			
Aggregate Deposits:	14,388.9	14,022.8	12,028.5
Demand (Exclusive of inter-bank transactions)	5,842.4	5,743.3	5,012.5
Time (-do-) ..	8,546.5	8,279.5	7,016.0
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	11,058.7	10,817.5	8,678.3
Investments in Government Securities	3,439.2	3,236.2	2,868.5

TABLE II

SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	December 1975		December 1974	
	State Bank of India	Associate Banks	State Bank of India	Associate Banks
No of Offices	3,831	1,814	3,409	1,719
Advances				
to Agriculture:				
(i) Direct				
No. of Accounts	7,88,732	1,60,271	5,58,295	1,08,307
Outstandings	176	53	119	37
(ii) Indirect				
No. of Accounts	13,417	3,313	7,864	3,450
Outstandings	65	20	58	17
to Small Scale Industries:				
No. of units	87,716	38,857	71,668	34,115
Outstandings	320	91	286	82
to Small Business:				
No. of Accounts	1,42,052	43,710	96,304	29,673
Outstandings	52	14	40	11
under Differential Interest Rates Scheme:				
No. of Accounts	1,79,730	42,192	1,08,411	25,305
Outstandings	8	2	4	1
for Exports:				
Outstandings	200	41	167	31

TABLE III

SELECTED ECONOMIC INDICATORS

	Position as on 30-4-1976	A Month Ago 26-3-1976	A Year Ago 25-4-1975
	(Amounts in rupees crores)		
1. Money Supply with the Public ...	13,083	12,676	11,830
(a) Currency with the public ...	7,015	6,734	6,617
(b) Deposit money with the public	6,068	5,942	5,213
	February 1976	January 1976	February 1975
2. Foreign Exchange Reserves			
(a) SDRs* ...	21.20	21.20	23.99
(b) Gold ...	182.53	182.53	182.53
(c) Foreign Exchange ...	1,167.62	957.70	561.8
3. Money Rates	(Per cent per annum)		
(a) Bank Rate ...	9	9	9
(b) State Bank of India Advance Rate ...	14	14	13½
(c) State Bank of India Hundi Rate ...	14-16	14-16	13½-16½
(d) Call Money Rate (Bombay) ...	14.2	12.9	14.4
(e) Bazar Bill Rate (Bombay) ...	21	21	21

*In crores of SDRs.

TABLE III

SELECTED ECONOMIC INDICATORS (Contd.)

	July 1974	June 1974	July 1973
4. Index Number of Industrial Production (1960=100)			
General Index (Adjusted)	202.1	206.3	197.4
	Week ended 24-4-1976	Week ended 27-3-1976	Week ended 26-4-1975
5. Index Number of Wholesale Prices (1961-62=100)			
All Commodities ...	290.6	282.9	311.2
Food Articles ...	317.5	305.2	366.9
Liquor & Tobacco	323.1	312.7	308.3
Fuel, Power, Light and Lubricants	366.9	367.6	322.2
Industrial Raw Materials ...	257.8	241.9	288.5
Chemicals ...	313.1	313.1	327.9
Machinery and Transport Equipment ...	260.3	259.8	267.0
Manufactures	255.4	253.9	251.9
	February 1976	January 1976	February 1975
6. Consumer Price Index Numbers for Industrial Workers—All-India (1960=100) ...	290	298	325
7. Foreign Trade		(Rupees in crores)	
Total Imports ...	305.7	442.6	416.6
Total Exports (including re-exports) ...	376.1	333.1	311.1

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Tax Benefits and Planned Investments

S. R. Darekar

The employees when they retire from service get fairly large sums in their hands by way of provident fund, gratuity, leave salary, etc., which may attract the provisions of the Wealth Tax Act, resulting in payment of heavy taxes on their hard-earned income because of the improper investments or inadequate knowledge of the tax laws. Evasion of tax is a crime, but proper planning of investments so as to reduce the tax incidence permitted under tax laws is perfectly justified. The object of this article is, therefore, to apprise the tax payers of the incidence of taxes on their income and how best they can invest their funds so that the tax burden can be reduced to the maximum extent within the corners of the law. The choice of investment is with them. One problem that haunts them is how to invest moneys in suitable manner so as to minimise the tax burden on their yield and reduce the wealth tax on their assets. Knowing fully the incidence of tax on the probable income, planning of investment can be done easily.

Under Section 5 of the Wealth Tax Act, certain investments qualify for exemption from wealth tax. They are classified in three parts:

Part I —Investments which are totally exempt.
Part II —Investments which fall within the exemption limit aggregating Rs. 1,50,000.
Part III —Investments which are exempt over and above the limit aggregating Rs. 1,50,000.

Investments Which are Totally Exempt

10-Year Cumulative Time Deposits : Accounts can be opened by individuals (adult or minor) or two adults jointly in multiples of Rs. 5 up to a maximum of Rs. 1,000 per month in one account. There is no limit on the number of accounts. The total deposits in all single accounts during the entire period should not exceed Rs. 1,20,000 and in joint accounts Rs. 2,40,000. A Rs. 5 account yields Rs. 825 at maturity. The interest works out to 6.25 per cent. It is paid at maturity of the certificate and is completely free of income-tax. The deposits in these accounts and 15-year accounts made in a particular year qualify for deduction under Section 80C of the Income-tax Act in the same manner as deposits in provident funds and life insurance premia subject to a maximum of Rs. 20,000 per year or 30 per cent of the gross total income, whichever is less. One year after opening of accounts, withdrawals up to 50 per cent of the balance once in a 5-year account, twice in a 10-year account and thrice in a 15-year account are allowed. Withdrawals can be repaid either in a lump sum or by instalments with simple interest at 9.6 per cent per annum. Nomination is allowed on individual accounts. Accounts can be transferred to any post office in India doing savings bank work. Rebate is given on advance deposits for 6/12 months made in a month. However, 5-year and 15-year Cumulative Time Deposits Accounts have since been discontinued. Deposits in old accounts continue to be accepted.

15-Year Public Provident Fund : Any individual can subscribe to the Fund either on his own behalf or on

behalf of a minor of whom he is the guardian. Only one account can be opened in one name. Accounts can be opened at all branches of the State Bank of India and its Associates. Subscription may be in any amount not less than Rs. 100 and not exceeding Rs. 20,000 in a financial year payable in one lump sum or in convenient instalments, which should be in multiples of Rs. 5. A subscriber can pay his subscription in more than one instalment in a calendar month provided the total number of instalments paid in a year does not exceed twelve.

The rate of interest is announced by the Government from time to time. From the 1st August 1974 the rate of interest is 7 per cent. The interest credited to the Fund account and withdrawals from it are exempt from income-tax. The deposits in this account made in a particular year qualify for deduction under Section 80C of the Income-tax Act in the same manner as deposits in provident funds, life insurance premia and 10-year Cumulative Time Deposits subject to a maximum of Rs. 20,000 in a year or 30 per cent of the gross total income, whichever is less. Deposits paid out of the assessee's taxable income into this account standing in the name(s) of his wife and/or minor children will also qualify for deduction under Section 80C of the Act subject to the prescribed limit. The balance to the credit of the subscriber in his account is not subject to attachment under any order or decree of court in respect of any debt or other liability incurred by him.

The entire balance standing to the credit of an account can be withdrawn after the expiry of 15 financial years from the close of the year in which the initial subscription was made. Meantime, if necessary, withdrawals within limits can be made without closing the account. No withdrawal is permissible before the expiry of five years from the end of the year in which the account was opened. The maximum permissible withdrawal will be 50 per cent of the credit balance in the account at the close of the sixth year immediately preceding the financial year in which the withdrawal is made. Subsequent withdrawals are also allowed.

Loan can also be obtained against this account subject to certain terms and conditions. The first loan can be taken in the third year from the financial year in which the account was opened. The loan will have to be repaid within 24 months in one or more instalments. Interest at 1 per cent per annum will be charged on the loan amount during this period. Further loan can be drawn, if necessary, but the earlier loan has to be repaid in full with interest. Such loan will also be to the extent of 25 per cent of the balance at credit at the end of the second year immediately preceding the year in which the loan is applied for. No loan can be taken after the end of the fifth year from the close of the year in which the account was opened.

A subscriber may nominate one or more persons to receive the amount standing to his credit in the event of his death. No nomination can be made in respect of an account opened on behalf of a minor. In the event of death, the amount standing to the subscriber's credit will be paid to the nominee or legal heir even before the expiry of fifteen years from the end of the year in which the account was opened. An account can be transferred from one office or branch of the State Bank of India and its Associates to any other office or branch of the State Bank of India and its Associates.

Deposits with Co-operative Housing Society: Any deposits with a co-operative housing society made by a member of the society to whom a building or part thereof is allotted or leased under a house building scheme of the society are exempt from wealth tax.

Dwelling House : One house or a part thereof belonging to the assessee up to its value of Rs. 1 lakh irrespective of the fact whether it is used by the assessee for his own residence or is let out on rent is exempt from wealth tax.

Gold Bonds : The value of $6\frac{1}{2}$ per cent Gold Bonds, 1977, 7 per cent Gold Bonds, 1980, and National Defence Gold Bonds, 1980, is not to be included in the net wealth.

As the Gold Bonds are not included in the aggregate exempt limit of Rs. 1,50,000, there appears to be no upper limit of holding of Gold Bonds for the purpose of this exemption.

Conveyance : Conveyance for personal use up to an aggregate value of Rs. 30,000 is exempt from wealth tax.

Gratuity or Pension Payable : The right of the assessee to receive a pension or other life annuity in respect of past services under an employer is excluded from the net wealth of the assessee.

Insurance Policy : The value of the assessee's right or interest in the policy of insurance is exempt from wealth tax before it becomes due and payable to the assessee provided the premium or other payments whereon are paid over a period of ten years or more. If it is less than ten years, only a proportionate amount is exempt.

Provident Fund : The amount standing to the credit of an assessee with any provident fund maintained by his employer to which either the Provident Fund Act, 1925, is applicable or which fund is recognised Provident Fund under the Income-tax Act is exempt from wealth tax.

Investments Which Fall within the Exemption Limit Aggregating Rs. 1,50,000

Post Office Savings Bank Account : In a single account, one can deposit up to Rs. 25,000 by depositing an initial deposit of Rs. 5 or more. Subsequent deposit not less than Re. 1 in cash or Rs. 5 by cheque is accepted in this account. In the joint account, deposits up to Rs. 50,000 (maximum) are accepted. The rate of interest is 5 per cent per annum. It is payable annually by credit into the account on the 1st April every year and is completely tax-free under Section 10 of the Income-tax Act. There is no restriction on withdrawals. An individual

can have one account only at one post office. The facilities of withdrawals by cheques, nominations and transfer of accounts are available. 11,116 prizes are offered in each lucky draw to account holders who maintain a minimum balance of Rs. 200 during the specified period.

7-Year National Savings Certificates Issue II: These certificates are available in denominations of Rs. 10, Rs. 50, Rs. 100, Rs. 500, Rs. 1,000 and Rs. 5,000. The rate of interest is 6 per cent and it is paid at maturity of the certificate. A sum of Rs. 100 invested in this certificate becomes Rs. 150 after seven years. The interest is free of tax. The principal amount is locked up for at least three years. The certificate can be encashed before maturity but after expiry of three years.

7-Year National Savings Certificates Issue III : These certificates are available in denominations of Rs. 100, Rs. 1,000 and Rs. 5,000. The rate of interest is 6 per cent. The interest which is paid annually is free of tax. The principal amount is locked up for at least three years. These certificates can be encashed before maturity but after expiry of three years by paying certain discount. The investments can be made in issues II and III combined up to Rs. 75,000 in single account (an adult or a minor) and up to Rs. 1,50,000 in a joint account (two adults jointly). These limits are for both types of certificates (including bank series) taken together and inclusive of investments in the earlier tax free certificates except 10-year National Plan Certificates. The associations, institutions or bodies registered as societies can invest up to Rs. 50,000 and the provident funds without any limit. If a holder of these certificates dies before the lock-up period of three years, the certificates can be encashed by his nominee/legal heir after expiry of one year from the date of their issue.

7-Year National Savings Certificates Issue IV: These certificates are available in denominations of Rs. 50,

Rs. 100, Rs. 500, Rs. 1,000 and Rs. 5,000. An adult, a minor or two adults can purchase these certificates jointly without any limit. The rate of interest is 10.25 per cent. Although the interest is not completely free of tax it qualifies for deduction under Section 80L of the Income-tax Act within the aggregate limit of Rs. 3,000. Interest is payable annually and the principal amount on maturity. No tax is deducted at source from the amount of interest earned on these certificates. These certificates can be encashed before maturity but only after the expiry of three years by paying certain discount. The premature encashment of a certificate of Rs. 100 (issued on or after July 23, 1974) after three years will fetch Rs. 95.75 and after five years Rs. 96. Nomination facility is allowed on single type certificate. The certificates can be pledged as security. They can be transferred anywhere in India and in the case of loss, duplicates can be obtained.

7-Year National Savings Certificates Issue V : These certificates are available in denominations of Rs.10, Rs. 50, Rs. 100, Rs. 500 and Rs. 1,000. An adult, a minor or two adults jointly can purchase these certificates without any limit. The rate of interest is 10.25 per cent and is paid at maturity of the certificate. Although the interest is not completely free of tax it qualifies for deduction under Section 80L of the Act within the aggregate limit of Rs. 3,000. A sum of Rs. 100 invested in this certificate becomes Rs. 130 after three years and Rs. 198 after seven years, including interest (14 per cent simple interest payable at maturity). No tax is deducted at source from the amount of interest. Nomination facility is available in the case of single type certificate. The certificates can be lodged as security. They can be transferred anywhere in India, and in the case of loss, duplicates can be obtained.

Post Office Time Deposit Accounts : An adult, a minor or two adults jointly can open these accounts without limit. Deposits are to be made in the multiples of Rs. 50. There are four types of accounts, viz.,

1 year account where interest is 8 per cent, 2 year account where interest is 8.5 per cent, 3 year account where interest is 9 per cent and 5 year account where interest is 10 per cent. The interest is paid annually. The amount is refunded only after the expiry of the stipulated periods of the deposits as the case may be. Although the interest is not completely free of tax it qualifies for deduction under Section 80L of the Act within the aggregate limit of Rs. 3,000. No tax is deducted at source from the amount of interest. As the deposits are for fixed periods, no withdrawal is allowed. Nomination is allowed on single account.

5-Year Post Office Recurring Deposit Accounts : Accounts can be opened by individuals including a minor or two adults jointly in multiples of Rs. 5. In this scheme, monthly fixed instalment is to be made for five years. There is no limit on monthly deposits or on total deposits or on the number of accounts. Interest is paid at 9.25 per cent on maturity. A Rs. 10 account yields Rs. 750 at the end of 5 years. Although the interest is not completely free of tax it qualifies for deduction under Section 80L of the Act within the aggregate limit of Rs. 3,000. The amount can be withdrawn once during the term of the account up to 50 per cent of the deposits made so far. Interest on the withdrawn amount is charged at 9.6 per cent per annum simple. Nomination is allowed on single accounts. Accounts can be transferred to any post office in India doing savings bank work. Suitable rebate is allowed on advance deposits for 6/12 months. The maturity amount of Rs. 750 of Rs. 10 denomination account if kept with the Government for a further period of 5 years becomes Rs. 1,167.30. The Rs. 10 denomination account if extended for another five years will fetch Rs. 1,917.30 at the end of the extended period of five years.

Units of the Unit Trust of India

The face value of a unit is Rs. 10. Units are sold in multiples of ten, the minimum being 10 units. There is no limit to investment in units. The Unit Trust is obliged to repurchase these units whenever a unit holder wishes to sell back his units. The Unit Trust pays dividend which depends on the income earned by the Trust on its investments. A full year's dividend is paid to the unit holder irrespective of the date of purchase of units, provided his name is on the register of the unit holders on the 30th June. The dividend is declared in the month of July for the previous year and the dividend warrants are issued at the end of September. The sale and purchase prices of units are determined daily and published every day in important newspapers.

A single individual or 2, 3 or 4 persons (none of whom is a minor) jointly or on any one/or survivor basis can purchase units. A minor by himself cannot apply for the purchase of units but an application can be made on his behalf by a parent.

Tax is not deducted at source from the dividend paid to the resident individual irrespective of the amount of dividend. In the case of non-residents, if the aggregate dividend exceeds Rs. 5,000, income-tax is deducted at source at the rate of 15 per cent on the whole amount, but when the dividend amount is Rs. 5,000 or less, income-tax is not deducted at source. Although the income from units is not completely free of tax it qualifies for deduction under Section 80L of the Act within the aggregate limit of Rs. 3,000. Over and above the deduction allowed under Section 80L (Rs. 3,000), from the assessment year 1975-76 an additional deduction of Rs. 2,000 in respect of income from units is allowed. For the purpose of determining the limit for exemption either in wealth tax or income-tax, units issued/allotted under all schemes/plans are to be taken together. The Unit Trust of India has introduced various plans, viz., (1) Reinvestment Plan — where

investment of dividend at the July rate is automatically done, (2) Children's Gift Plan — it is a long-term provision for the children where the child will not be able to encash the units till he/she completes 21 years, and (3) Unit-Linked Insurance Plan — it is a contractual savings plan similar to life insurance and Cumulative Time Deposit Schemes. The contributions made for membership under this Plan rank for deduction for income-tax purpose on the lines of life insurance premia, provident fund, etc., under Section 80L of the Act provided the contributions are for the assessee's own membership and the assessee continues the membership of the Plan at least for a period of 5 years to avail himself of such rebate. Income from units is totally exempt from income-tax if you buy them by direct payment in foreign exchange or through a non-resident (external) account kept in India. From the assessment year 1975-76 an investment in units alone up to Rs. 25,000 is totally exempt from wealth tax and this is in addition to the aggregate exemption limit of Rs. 1.5 lakhs from wealth tax available in respect of specified categories of investments including units.

Dividends on Shares of Companies

Any dividend income other than the interim dividend is taxable in the year in which it is so declared and not the year in respect of which it is declared. It is deemed to be the income of the previous year in which it is declared, distributed or paid. The date of the Annual General Meeting of the company is the date of the declaration of the dividend and is the material date for determining the year in which dividend income is taxable. The date on which the dividend amount is received is not the material date. Arrears of dividends for past years, which are declared by the company in one accounting year, are all taxable as income of the year in which they are declared. Unlike dividend income proper, income from interim dividend is taxable as the income of the year in which the dividend warrant is actually issued. In the case of interim dividend, the date of declaration of dividend is immaterial, the rele-

vant date being that on which it is unconditionally made available.

The dividend income is taxable as "income from other sources." Though the dividend is paid to a shareholder "net" after deduction of tax at source, the amount chargeable to tax is the gross amount of the dividend and not the net. However, the dividend received from a foreign company is to be taxed net and not gross as there is no provision in the Act under which the deduction of foreign tax is deemed to be the income received. It may be noted that the dividend is to be taken in the hands of the person whose name appears as a shareholder on the company's register of shareholders at the time when the dividend is declared even though he may not have been the owner of the shares for the entire period for which the dividend is declared. Although the dividend income is not completely free of tax it qualifies for deduction under Section 80L of the Act within the aggregate limit of Rs. 3,000.

Securities : Section 18 of the Income-tax Act deals with interest on securities issued by (i) the Central Government, (ii) State Governments, (iii) a local authority, (iv) a company or (v) a statutory corporation. Debentures or other securities fall within this section. Interest on securities is chargeable in the year in which it accrues or becomes due, though it may be received in a later year. But if in any case the interest is not assessed in the year of accrual, it may be charged in the year of receipt. Interest on securities does not accrue from day to day but on certain fixed days. On the sale of securities the purchaser alone is assessable on the whole amount of interest received by him on the next due date although the purchase price is so calculated as to include interest computed de die in diem (from day to day). Even if the sale takes place on the eve of the payment of interest, the purchaser would still be chargeable in respect of the interest, and not the seller.

Interest on securities issued by the Government of India accrues in India even if it is enfaced for payment abroad. The person responsible for paying interest on taxable securities must at the time of payment deduct tax at source. Interest on securities qualifies for deduction under Section 80L of the Act within the aggregate limit of Rs. 3,000.

Bank Deposits : The interest earned on deposits with banks is not free of income-tax. Although no tax is deducted at source, the amount of interest on bank deposits is treated as income and it is to be included in the total income of the assessee under the head "income from other sources." However, the assessee can claim deduction of the amount of interest on such deposits to the extent of available limit in the aggregate amount of deduction of Rs. 3,000 allowed under Section 80L of the Act. Similarly, from the assessment year 1972-73, tax on interest paid by a co-operative society to its members is not deductible at source and such interest qualifies for deduction under Section 80L of the Act.

Deposits with Government : Deposits under any scheme framed by the Central Government and notified by it in this behalf in the official Gazette to the extent to which the amounts of such deposits do not exceed the maximum amount permitted to be deposited therein are exempt from wealth tax.

Investments Which are Exempt over and above the Limit Aggregating Rs. 1,50,000

Tax payers can also claim exemption of certain investments from wealth tax over and above the aggregate exempt limit of Rs. 1,50,000. Such investments are listed as under :

(1) 10-year Post Office Cumulative Time Deposit, (2) the amount standing to the credit of a subscriber in the account of 15-year Public Provident Fund, (3) Gold

Bonds, (4) deposits with co-operative housing society, (5) investment in units of the Unit Trust of India up to Rs. 25,000.

It will not be a difficult task to draw out a plan of investments when you know what are the yields and tax liability thereon. It all depends on your present needs and future requirements. The yields on some investments are no doubt low, but the tax benefits are high and vice versa. Planning is always useful to provide for future financial needs in old age, which are at times innumerable and unavoidable too. The growth in savings, however small, will assist to build up a fairly big capital asset which will help meet most of these financial requirements.

(Shri S. R. Darekar is the Manager, Services Banking Division, at the Bank's Bombay Main Branch.)

Consumption Credit

One of the important features of the 20-Point Economic Programme announced by the Prime Minister on July 1, 1975 in the wake of the promulgation of emergency in the country relates to the liquidation of rural indebtedness. Following this, a number of State Governments have enacted laws, first declaring a moratorium on the debts and then discharging the landless, small and marginal farmers and artisans from the debts obtained from non-institutional agencies. The enactment of the laws, however, led to the sudden suspension of operations by money-lenders and created a vacuum in rural credit. Anticipating this, the Government of India appointed in March 1976, an expert committee headed by Shri B. Sivaraman, Member, Planning Commission, to go into the question of providing consumption credit to landless labourers, small and marginal farmers and artisans and to suggest ways and means for this purpose. The Committee submitted its report in April 1976.

Nature and Requirements of Consumption Loans

The class of people whose debts have been totally discharged are those that live from hand to mouth. The consumption loans that they avail themselves of are generally for expenditure on clothing and food during the lean periods. These loans are generally paid back in kind and

sometimes in cash when the harvest comes. In addition, these families take loans for social purposes like birth, funeral or marriage ceremony or medical expenses. Any system which seeks to replace the money-lenders, will have to make readily available to the people alternative sources of credit without too many formalities. At the same time, extravagance in consumption should be discouraged and borrowing restricted to the bare minimum that is necessary. Taking the above factors into consideration, the Committee has recommended the following consumption loan ceilings under the various heads: Rs. 250 for medical expenses, depending on the number of members in a family, Rs. 100 for educational expenses, Rs. 250 for marriages, Rs. 75 for births, funerals and other religious ceremonies. While recommending the above ceilings, the Committee has noted that the loans for consumption cannot be distributed freely. The borrowers should have the capacity to repay. If the borrower is a landless labourer, then the loan should be repaid out of his wages. Cases of indigence, where a person requires consumption credit but has no capacity to repay it, are problems to be tackled by social reform and charity structures.

Estimation of Consumption Credit Needs

The groups of rural people for whom the Committee has been asked to suggest ways and means of providing consumption credit, have been divided into two groups. The first group of the landless labourers and small and marginal farmers holding nil and 0.01 to 0.50 acre respectively have been termed as the weakest among the weaker sections of the society. The second group of farmers comprises those who hold more than 0.50 acre but less than 5 acres; this group of farmers has been termed as the weaker sections. Based on the findings of the All-India Debt and Investment Survey 1971-72, the Committee has estimated the consumption credit needs of the first group at Rs. 340 crores for the first year of operation. Similarly, for 1976-77, the consumption credit needs of the second group have been put at Rs. 250 crores. However, the Committee feels that

the above figures of consumption credit needs (Rs. 340 crores and Rs. 250 crores) arrived on the basis of the All-India Debt and Investment Survey, are somewhat exaggerated. The actual consumption credit needs of the rural areas will be much lower. The Committee has, therefore, put the consumption credit needs for all purposes of the weakest of the weaker sections of the society holding land up to 0.50 acre at Rs. 170 crores and those of the weaker sections who are holding 0.50 acre to 5 acres at Rs. 125 crores.

As regards the second group of borrowers mainly the weaker sections who require Rs. 125 crores as consumption credit, the Committee feels that the existing institutional structure of commercial banks and co-operative banks will take care of their needs with some marginal changes here and there. The consumption credit needs of the weakest of the weaker sections, however, require special attention. The primary co-operative societies and farmers' service societies, with the active co-operation of the central co-operative banks, are the best suited to provide the consumption credit to this group of borrowers. As regards commercial banks, since their loans for consumption are linked with the production activity of the borrowers, they are not ideally suited to serve the needs of the rural poor in this connection. Hence, the task of providing the credit for the consumption needs of this class of borrowers has mainly been assigned to co-operatives. But the resources at the command of co-operatives are meagre and they also suffer from such organisational difficulties as not having full-time paid secretary, etc. The central co-operative banks have larger amount of overdues outstanding against the primary societies. If the primary societies mobilise deposits and clear overdues in the year where there have been excellent harvests of crops, the central co-operative banks will be able to utilise fully the credit limits sanctioned by the Reserve Bank of India. Even when all the changes suggested by the Committee are brought into effect within two months, i.e., by the

end of June 1976, the co-operatives will be in a position to provide only Rs. 70 crores of Rs. 170 crores. The rest of the amount of Rs. 100 crores has to be raised by the State Governments themselves. This means that this amount will be spent in the "grey" areas which are not covered by the co-operatives.

Institutional Arrangements

The Committee has stressed that only those primary co-operative societies which have full-time paid secretaries should be entrusted with the responsibility of extending consumption credit. Since less than 1/3rd of the societies have full-time paid secretaries, the Committee has recommended that by the end of June 1976, the societies should strengthen their organisation on a "war footing" so that at least half the societies in the country are made viable and have full-time paid secretaries. The State Governments have been asked to provide a management subsidy for appointing qualified full-time secretaries in a large number of societies. The State Governments also can enact laws (those who have not done so far) for enabling the co-operative societies to adopt universal membership so that all the persons in the rural sector who require loans can join co-operative societies. Further, the central co-operative banks should launch a drive immediately to reduce the overdues of the primary societies with them.

As far as weak central co-operative banks are concerned, the Committee has called for the Central Government to set apart Rs. 10 crores in the Annual Plan for 1976-77 for turning the weak central co-operative banks into viable units. When all the above measures are adopted by the co-operatives with the assistance of the Central and State Governments, co-operatives will be in a position to provide Rs. 70 crores.

As regards the raising of other Rs. 100 crores which are required to be spent in the "grey" areas by the State

Governments, the Committee has the following to say: As most State Governments have already drawn up their budgets for 1976-77, to raise the resources out of budgetary allocations now will be difficult. The States may have to consider imposing of a special tax on the lines of what Government of Maharashtra has done for financing its employment guarantee scheme. Even then it is doubtful whether the States can mobilise the necessary resources. So, the Central Government may have to arrange some special assistance to the States for raising the additional resources required.

Further, as the risk involved in financing the weakest sections is greater, the Committee has suggested a 10 per cent risk margin to be given to the lending institutions within a risk fund of Rs. 17 crores to be financed equally by the Central and State Governments. The institutional structure for the creation of such risk fund has to be designed on the following lines: (i) where the primary credit society or farmers' service society gives the loan, the contribution of 10 per cent will be divided in the proportion of 3 : 1, i.e., $7\frac{1}{2}$ per cent in favour of the primary society and $2\frac{1}{2}$ per cent in favour of the financing bank, whether co-operative or commercial, (ii) where a co-operative or commercial bank advances money directly to the loanees without any tangible security, the entire 10 per cent contribution will go to the bank concerned. As the Committee estimated the total quantum of consumption credit to the weakest among the weaker sections of the rural community at Rs. 170 crores, the risk fund to be constituted will amount to Rs. 17 crores when the loans reach that level.

Tribal Areas

The Committee has accepted the recommendations of the Bawa Committee which had gone into the question of providing an appropriate institutional framework for the tribal areas. The Bawa Committee recommended

that a network of strong and viable large-sized multi-purpose co-operative societies (LAMPS) should be set up at the base level which should purchase agricultural and forest produce from the tribals and, in turn, supply the necessities of life required by the tribals. Since the existing co-operative structure in the tribal areas is generally weak, the first necessary step for adequate provision of consumption credit would be to rationalise it and to set up the LAMPS as quickly as possible so as to cover the entire tribal area. As the establishment of the LAMPS will take time, in spite of the best efforts, the State Governments have been asked to open fair price shops immediately through appropriate Government departments to purchase forest products from the tribals and sell them the required necessaries of life.

The main emphasis of the Committee's recommendations rests on the primary co-operative society reorganised as a viable unit to act as a kingpin in the provision of consumption credit to the rural poor. Where there are no primary co-operative societies, this role has to be assumed by the farmers' service society or by the LAMPS in the tribal areas. Ultimately, it is the co-operative structure which has to act as a pillar in this new drive of filling up the "vacuum" created by the sudden suspension of the operations of the money-lenders. In recommending this measure, the Committee has brought into focus, the role of institutional sector in providing credit for consumption. But in assigning the major part of the role only to the co-operatives, the Committee does not seem to be on a firm ground. The co-operatives have been facing a number of problems, managerial as well as financial, and, therefore, they cannot become very capable in a short time to mount an assault on rural indebtedness even as far as consumption credit is concerned. It appears that efforts by co-operatives will have to be supplemented by the active participation in this task by commercial banks. At one place, the Committee itself has acknowledged that the commercial banks are expanding vastly their network in

rural and semi-urban areas. Commercial banks would only be too eager to meet the consumption credit needs of the rural poor, if a proper plan is drawn up linking the credit needs of consumption with those of production. Commercial banks can also rationalise their system of providing loans to primary co-operative societies and lend more through the societies for the consumption needs of the rural poor.

The Committee has stated that lending for consumption purposes should be treated like any other lending taking into consideration both the needs of the borrower and his repaying capacity. This may perhaps leave out a sizeable section of rural community including landless labourers and marginal farmers from the purview of their consumption loan facilities. Noting the above possibility, the Committee has pointed out that the consumption needs of landless labourers can be taken care of when they are linked to employment programmes started by the State Governments on the lines of the Maharashtra Government's employment guarantee scheme. But the question is whether this class of poor people can wait till such time the employment programmes come into operation. In the absence of institutional credit facilities, landless labourers and marginal farmers once again will fall a prey to the money-lenders who may operate in an indirect way and in a more ruthless manner. It may perhaps be necessary to consider the repaying capacity of this class of people over somewhat longer period.

Current Topics

Annual Plan for 1976-77

The Annual Plan for 1976-77, which was presented to the Parliament on May 26, 1976, envisages an outlay of Rs. 7,852 crores, representing an increase of 31.4 per cent over the Plan outlay of Rs. 5,978 crores in the previous year. The Plan has been formulated against the background of a significant improvement in the overall economic situation and achievement of a degree of price stability in 1975-76. The Plan takes into account the new sense of discipline and dynamism infused into the economy and the new direction to the planning process given by the 20-Point Economic Programme. In conformity with the general objectives of strengthening the core sectors of the economy, the Plan accords high priority to agriculture and allied services, irrigation, power, industry and minerals. Accordingly, the upward revision in development outlays is more pronounced in these sectors. Care has been taken to ensure that the increase in investment does not lead to generation of inflationary pressures in the economy. The investment pattern of the Annual Plan has been structured against this background and special emphasis has been put on the effective and purposeful implementation of the 20-Point Economic Programme.

Of the total Plan outlay of Rs. 7,852 crores, Central and Centrally sponsored schemes account for Rs. 4,090.41 crores and show an increase of Rs. 929.90 crores over the similar outlay in 1975-76. The allocation for the State

Plans totals Rs. 3,627.55 crores, which is Rs. 916.07 crores more than the similar outlay in 1975-76. The Plan expenditure of Rs. 117.46 crores earmarked for Union Territories shows an increase of Rs. 21.36 crores over the outlay in 1975-76 and that on the North-Eastern Council at Rs. 16.50 crores is higher by Rs. 6.50 crores over the outlay in 1975-76. The broad sectoral distribution of the Plan outlay for 1976-77 is as follows: (i) industry and minerals — Rs. 2,185 crores, (ii) power — Rs. 1,453 crores, (iii) transport and communications — Rs. 1,304 crores, (iv) social services — Rs. 1,010 crores, (v) agriculture and allied programmes — Rs. 896 crores, (vi) irrigation and flood control — Rs. 687 crores, (vii) village and small industries — Rs. 95 crores and (viii) others — Rs. 222 crores. Of the total increase in the outlay of Rs. 1,874 crores in 1976-77, industry and minerals account for the largest share (28.9%), followed by power (18.7%), transport and communications (14.1%), irrigation and flood control (11.7%) and agriculture (10.9%). Outlays on social services have been stepped up by Rs. 227 crores and account for 12.1 per cent of the total rise in the Plan outlay. The distribution of the Plan outlay for 1976-77 amongst the various sectors of the Centre, States and Union Territories is shown in the Table on page 181.

Stress on the 20-Point Economic Programme

The Plan has made a provision of Rs. 2,338 crores for schemes under the 20-Point Economic Programme during 1976-77. The outlays on the Economic Programme for the States and Union Territories is placed at Rs. 2,173.97 crores for 1976-77. The distribution of outlays is as under : (1) land reforms (Rs. 37.26 crores), (2) minor irrigation (Rs. 149.04 crores), (3) major and medium irrigation (Rs. 613.63 crores), (4) co-operation (Rs. 57.52 crores), (5) power (Rs. 1,289.69 crores), (6) handloom industry (Rs. 11.70 crores), (7) house-sites for landless labour (Rs. 9.97 crores), (8) apprentice schemes (Rs. 95 lakhs) and (9) free supply of books and stationery and book banks (Rs. 4.21 crores). In addition to these outlays in

the Plans of States and Union Territories, a provision of Rs. 163.71 crores has been made in the Central Plan for various schemes relevant to the Economic Programme. According to the Plan document, the 20-Point Economic Programme is not meant to be a substitute for the normal planning process. It only supplements the Plan by emphasising certain programmes requiring immediate attention.

TABLE NO. 1

Distribution of Plan Outlay for 1976-77

(Rs. in crores)

Head of Development	Central and Centrally sponsored schemes	States	Union Territories	Total
1. Agriculture and Allied Programmes including A.R.C.	366.60	514.68	14.95	896.23
2. Irrigation and Flood Control	14.38	666.70	5.71	686.79
3. Power	163.71	1,270.97	18.72	1,453.40
4. Village and Small Industries	51.68	40.02	3.32	95.02
5. Industry and Minerals	2,051.75	132.74	0.85	2,185.34
6. Transport and Communications	1,039.80	246.80	17.71	1,304.31
7. Education	78.70	160.36	13.75	252.81
8. Science and Technology	91.28	—	—	91.28
9. Health	58.72	61.61	5.83	126.16
10. Family Planning	70.14	—	—	70.14
11. Others	103.65	533.67	36.62	690.44*
Grand Total	4,090.41	3,627.55	117.46	7,851.92

* Includes an outlay of Rs. 16.50 crores allocated to the North-Eastern Council.

Agriculture and Allied Programmes

The Annual Plan has envisaged the production of foodgrains at 116 million tonnes in 1976-77. The targets fixed for the other crops are: oilseeds 10.5 million tonnes, sugar-cane 150 million tonnes, cotton 7.5 million bales and jute and mesta 6.5 million bales. The main elements in the strategy for promoting agricultural growth and

achieving the targets of production are a step-up in the consumption of fertilisers, increase in the area under irrigation, introduction of high-yielding varieties on an extensive scale and the adoption of soil conservation. Adequate provisions have been made for plant protection measures, farm credit and market development to match the growth in physical programmes. Special emphasis has also been laid on improving productivity of small and marginal farmers and farming in the semi-arid zones.

Irrigation

The expenditure on irrigation and flood control shows a substantial increase of Rs. 219 crores over the previous year's outlay. Increases of the order of 2 million hectares are planned in the irrigation potential as well as in the utilisation of the potential.

Power

The Plan lays considerable emphasis on power development programmes during the year as is evidenced by the increase of 31.9 per cent in the outlay on power over that in the previous year. Additional generating capacity of about 2.5 million kw. is expected to be commissioned during 1976-77, which will raise the aggregate generating capacity to about 24.5 million kw. The generation of energy in 1976-77 is estimated at 94,000 million units which will be about 9 per cent more than in 1975-76. High priority will continue to be given to expeditious construction of inter-State transmission lines. Under the Rural Electrification Programme, the main thrust would be towards stepping up agricultural production through energisation of irrigation pumpsets. During 1976-77, additional 1,80,000 irrigation pumpsets are expected to be energised and 11,000 villages would be electrified.

Industry and Minerals

The industrial development plan has been formulated to stimulate the rate of investment in consonance with the

main strategy outlined in the draft Fifth Plan, with adjustments in the priorities necessitated by developments at home and abroad during the last two years. The main plank of the industrial strategy lies in the priority given to industries catering for agriculture, energy and exports, fuller utilisation of existing capacities and creation of new capacities and production of mass consumption goods, particularly those required by the weaker sections of the community. Of the total outlay of Rs. 2,185 crores, nearly 79 per cent has been provided for basic and strategic industries such as iron and steel, fertilisers, coal, petroleum, petro-chemicals and non-ferrous metals. At the same time, emphasis has been laid on the production of mass consumption goods, particularly those required by the weaker sections of the community. In order that maximum benefit is secured from the investment already made, priority has been given to the completion of projects under construction and provision of balancing equipment, etc., wherever necessary.

With the expected increase in agricultural production and agro-based and other key industrial inputs like steel, coal, cement, power and transport facilities, the new dynamism witnessed in the working of public sector undertakings and the new climate of industrial peace that has ushered in, the Annual Plan envisages a very promising industrial growth. The targets of production fixed for some of the important industrial products are: saleable steel 6.46 million tonnes, aluminium 2.20 lakh tonnes, copper 0.36 lakh tonnes, nitrogenous fertilisers 18.50 lakh tonnes, phosphatic fertilisers 4.50 lakh tonnes, cement 18.2 million tonnes, paper and paper board 9.00 lakh tonnes, cotton cloth (mill sector) 4,400 million metres and sugar 4.9 million tonnes. The production target for coal has been fixed at 108 million tonnes and that for petroleum refinery products has been set at 21.5 million tonnes.

Village and Small Industries

In furtherance of the 20-Point Economic Programme,

emphasis has been placed on the handloom industry by reservation of a few more items for exclusive development by handlooms, modernisation of handlooms, strengthening marketing and training facilities, etc. Like-wise, carpet weaving is proposed to be given greater attention by improving designs and marketing assistance, especially for exports. A provision of Rs. 95 crores has been made for the village and small industries in the Plan of which Central and Centrally sponsored schemes will get Rs.52 crores, States Rs. 40 crores and the Union Territories Rs. 3 crores.

Transport and Communications

Railways: The target for originating freight traffic has been placed at 225 million tonnes, which is 11 million tonnes more than the anticipated figure for 1975-76. Some of the important projects which are likely to be completed in 1976-77 are the rail-link to Haldia port, a new line between Guna and Maksi and another between Tomagullu and Mudukulapenta and the electrification of the line from Calcutta to Delhi.

Roads: In addition to providing increased outlays on national highways and augmentation of city transport services, there will be increased emphasis on development of roads particularly in hilly and backward areas.

Ports and Shipping: The Haldia dock projects, the Visakhapatnam outer harbour project and Madras iron-ore berth project are all expected to be completed in 1976-77. In the Mormugao iron ore berth project, new iron ore handling facilities are likely to be commissioned during the year. The total tonnage of Indian shipping is expected to go up to 5.33 million grt. by the end of 1976-77.

Communications: During 1976-77, 600 post-offices are expected to be opened and an addition of 1.3 lakh telephones (direct exchange lines) is envisaged. Further, the opening of 1,100 telegraph offices and 800 long distance

public call offices has been planned. Under the Overseas Communication Service, the Dehra Dun earth station is likely to be completed and Stored Programme Controlled Telex Exchange at Bombay is expected to be commissioned.

Social Services : The Plan anticipates a major expansion of educational facilities under the school education programmes and lays stress on the orientation of higher education to social and economic needs of the country. The three components of the 20-Point Economic Programme which have a bearing on education and training have been adequately provided for in the Plan. In the field of health and family planning, the major areas of thrust of the Annual Plan for 1976-77 will be intensification of the programme for minimum needs, control of communicable diseases and intensification of the family planning programme. Schemes under housing relating to the stepping up of the provision of house sites for landless and weaker sections of the community have been formulated. Steps are also being taken to implement the programme of socialisation of urban land. The Plan has also taken due cognisance of the need for creating expanding employment opportunities in the economy.

Financing of the Plan

The scheme for financing the Annual Plan for 1976-77 has been framed against the need for ensuring that the proposed step-up in investment does not lead to generation of inflationary pressures in the economy. The Plan will be financed to the tune of 79.5 per cent from domestic resources, 16.4 per cent by external assistance and 4.1 per cent by deficit financing.

Total budgetary resources for 1976-77 have been placed at Rs. 3,265 crores. The scheme of Plan financing envisages the mobilisation of additional resources to the tune of Rs. 309 crores by the Centre and Rs. 225 crores by the States during the current year. Besides, the additional resource mobilisation measures taken by the Central and

State Governments in 1974-75 and 1975-76 are expected to yield Rs. 1,434 crores to the Centre and Rs. 1,012 crores to the States during the current year. Total additional resources to be mobilised for the 1976-77 Plan will thus amount to Rs. 2,980 crores.

TABLE NO. 2

ESTIMATES OF FINANCIAL RESOURCES

(Rs. in crores)

	Centre	States	Total
1. Domestic budgetary resources	2,223	1,042	3,265
2. Additional resource mobilisation	1,555	1,425	2,980
3. External assistance (Net)	1,287	—	1,287
4. Deficit financing	320	—	320
5. Aggregate resources (1+2+3+4)	5,385	2,467	7,852
6. Assistance for the State Plans	-935	935	—
7. Special advance assistance to the States	-242	242	—
8. Resources for the Plan	4,208	3,644	7,852

The Annual Plan places net external assistance for 1976-77 at Rs. 1,287 crores, which include oil credits of Rs. 150 crores and special credit of Rs. 178 crores from Iran for Kudremukh project and general economic development. Thus, the net external assistance estimated for 1976-77 works out to much less than that for 1975-76, which is now placed at Rs. 1,389 crores. The balance of Rs. 320 crores would be met by resort to deficit financing. The Plan document states that in view of the anticipated increase in production, deficit financing of this order is not expected to have any inflationary impact in the economy. Nonetheless, there is need for continued vigilance on the price front. Monetary and fiscal policies will have to be effectively used to maintain balance between aggregate demand and supply. At the same time, the Plan document emphasises the need for scrupulously avoiding increases in deficit financing beyond the envisaged level and for maintaining adequate supplies of foodgrains and other goods at reasonable prices as well as for strengthening the public distribution system.

Legal Decisions

On Banking

Bond in Favour of Police—When Unenforceable in Law?

Anwar Ahmad *(Appellant)*

vs.

State of U.P. *(Respondent)*

A.I.R. 1976 Supreme Court 680

Contributed by N. K. Randeria

The appellant had executed a personal bond in favour of the police whereby he undertook to produce the car alleged to have been stolen and seized by the police, in the Court, whenever necessary, and in the case of failure, he bound himself to pay a penalty of Rs. 5,000. The appellant, when called upon by the Munsiff Magistrate to produce the car, was unable to do so, and a notice was issued under Section 514 of the Criminal Procedure Code for forfeiture of the bond.

The appellant contended that the bond was legally invalid and unenforceable under Section 514. Both the Munsiff Magistrate and the Sessions Judge rejected the

contention of the appellant, who was directed to pay the penalty of Rs. 5,000. The High Court having rejected the revision, the appellant filed an appeal to the Supreme Court.

Upholding the contention of the appellant, the Supreme Court referred to Section 523 of the old Criminal Procedure Code and observed that under the provisions of the said Section the moment the police officer had seized the property suspected to have been stolen, or which was the subject matter of an offence, he had to report the matter to the Magistrate concerned and it was for the Magistrate to pass such orders as he thought fit regarding the disposal of the property. The Supreme Court further observed that while Section 523 of the said Code authorised the police to seize the property and to make a summary order for the custody of the property, it did not authorise the police officer to take a bond from the person to whom the property was entrusted. The Supreme Court observed—"unless a personal bond is executed by a person for the production of the property before a Court, it shall not be valid in law."

In the passing, the Supreme Court observed that the new Criminal Procedure Code did not contain any express provision empowering the police officer to get a bond from the person to whom the property seized was entrusted. This may lead to practical difficulties, for instance, in cases where a bulky property like an elephant or a car was seized and the Magistrate was living at a great distance, it would be difficult for the police officer to report to the Magistrate with the property. Therefore, it was necessary to make suitable amendments in the new Code of Criminal Procedure to fill up a serious lacuna by giving adequate powers to the police.

In the result, the appeal was allowed.

(**Shri N. K. Randeria** is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I

SELECTED ASSETS AND LIABILITIES OF BANKS IN INDIA

(Rupees in crores)

	Position as on 28-5-1976	A Month ago 30-4-1976	A Year ago 30-5-1975
State Bank of India			
Aggregate Deposits:	3,485.0	3,391.5	2,852.2
Demand (Exclusive of inter-bank transactions)	1,419.7	1,377.5	1,242.4
Time (-do-)	2,065.3	2,014.0	1,609.8
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	2,807.9	2,644.7	2,141.2
Investments in Government Securities	824.4	852.3	721.0
Associate Banks			
Aggregate Deposits:	800.4	765.9	671.3
Demand (Exclusive of Inter-bank transactions)	338.7	322.7	286.3
Time (-do-)	461.7	443.2	385.0
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	626.1	620.9	512.3
Investments in Government Securities	142.4	138.8	124.4
All Scheduled Commercial Banks			
Aggregate Deposits:	14,726.4	14,388.9	12,214.1
Demand (Exclusive of inter-bank transactions)	5,988.0	5,842.4	5,078.9
Time (-do-) ..	8,738.4	8,546.5	7,135.2
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	11,352.5	11,058.7	8,848.7
Investments in Government Securities	3,398.8	3,439.2	2,850.7

TABLE II

SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	December 1975		December 1974	
	State Bank of India	Associate Banks	State Bank of India	Associate Banks
No. of Offices	3,831	1,814	3,409	1,719
Advances				
to Agriculture:				
(i) Direct				
No. of Accounts	7,88,732	1,60,271	5,58,295	1,08,307
Outstandings	176	53	119	37
(ii) Indirect				
No. of Accounts	13,417	3,313	7,864	3,450
Outstandings	65	20	58	17
to Small Scale Industries:				
No. of units	87,716	38,857	71,668	34,115
Outstandings	320	91	286	82
to Small Business:				
No. of Accounts	1,42,052	43,710	96,304	29,673
Outstandings	52	14	40	11
under Differential Interest Rates Scheme:				
No. of Accounts	1,79,730	42,192	1,08,411	25,305
Outstandings	8	2	4	1
for Exports:				
Outstandings	200	41	167	31

TABLE III

SELECTED ECONOMIC INDICATORS

	Position as on 28-5-1976	A Month Ago 30-4-1976	A Year Ago 30-5-1975
	(Amounts in rupees crores)		
1. Money Supply with the Public...	13,420	13,083	12,037
(a) Currency with the public ...	7,211	7,015	6,765
(b) Deposit money with the public	6,209	6,068	5,272
	February 1976	January 1976	February 1975
2. Foreign Exchange Reserves			
(a) SDRs* ...	21.20	21.20	23.99
(b) Gold ...	182.53	182.53	182.53
(c) Foreign Exchange ...	1,167.62	957.70	561.75
3. Money Rates			
	(Per cent per annum)		
(a) Bank Rate ...	9	9	9
(b) State Bank of India Advance Rate ...	14	14	$13\frac{1}{2}$
(c) State Bank of India Hundi Rate ...	14-16	14-16	$13\frac{1}{2}$-$16\frac{1}{2}$
(d) Call Money Rate (Bombay) ...	14.2	12.9	14.4
(e) Bazar Bill Rate (Bombay) ...	21	21	21

*In crores of SDRs.

TABLE III

SELECTED ECONOMIC INDICATORS (Contd.)

		January 1976	December 1975	January 1975
4.	**Index Number of Industrial Production (1970=100)**			
	General Index	132.7	133.0	122.6
		Week ended 29-5-1976	Week ended 24-4-1976	Week ended 31-5-1975
5.	**Index Number of Wholesale Prices (1961-62=100)**			
	All Commodities	292.7	290.6	312.2
	Food Articles ...	317.9	317.5	369.3
	Liquor & Tobacco	326.3	323.1	317.8
	Fuel, Power, Light and Lubricants	368.5	366.9	323.7
	Industrial Raw Materials ...	268.6	257.8	285.6
	Chemicals	293.7	313.1	329.4
	Machinery and Transport Equipment ...	259.4	260.3	267.9
	Manufactures ...	257.5	255.4	251.7
		February 1976	January 1976	February 1975
6.	**Consumer Price Index Numbers for Industrial Workers—All-India (1960=100)** ...	290	298	325
7.	**Foreign Trade**			
		(Rupees in crores)		
	Total Imports ...	305.7	442.6	416.6
	Total Exports (including re-exports) ...	376.1	333.1	311.1

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Social Obligations of Banks— An Objective?

L. G. Kulkarni

The concept that banks have an important role to play in socio-economic sphere does not need to be emphasised any more. This has been by now accepted. It is now being felt more and more that while profit is a necessary objective of banks, they must also view their operations in the overall context of the needs of the community. From this point of view, it is often argued that meeting of social obligations should be incorporated as an essential objective of banks. This has now become significant in the context of the need for the banks' active participation in the implementation of the 20-Point Economic Programme.

This is a matter of paramount significance for banking and academic circles.

It is, of course, elementary that organisations are formed for fulfilment of an objective, and the clearer the objective, and the more widely it is understood and absorbed by the people in the organisation, the better are the chances for

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achievement of the objective. To this end, it is also desirable to have the objectives of an organisation clearly, formally and precisely spelt out and communicated at all levels so that they are understood by all in the same sense, thus reducing the scope for ambiguity and confusion. Precision is also important because it is not functional to have a lengthy, inspired, declaration of noble and pious intentions; it is necessary that the objectives are brief, specific and pointed. That is why 'Memorandum and Articles of Association' of an organisation do not form an objective. Nor could a mere definition or description constitute an objective—"doing banking business" cannot obviously be an "objective" of banks.

In this background, it is surprising but true that many banks in India do not have their objectives so spelt out even today. It could be argued that since all major banks are nationalised, there is no need for a separate exercise of this kind for each bank and that the job of spelling out a common objective could be left to the Government. This is not correct. While profit is a well-known and well-understood objective of all banks, whether formally spelt out or not, banks could still have additional objectives which could be different for different banks, say, regional development, to give one example. To begin with, it is essential to identify the objectives of individual banks. It is an overdue exercise.

It is not proposed to discuss here the diverse objectives banks can possibly have. We will restrict ourselves to a discussion of only one objective, which could be common for all banks in today's circumstances, viz., fulfilment of social obligations.

We have to consider in this field of study an important thesis (Prof. Ishwar Dayal - Designing a Work Organisation) that objectives of an organisation must not be competitive. The logic is that if objectives which compete with each other are adopted by an organisation, it will lead to lack of clarity causing confusion among members of the organisation with

resultant adverse effects on the achievement of the objectives themselves. For our purposes, we will call objectives which compete with each other as heterogeneous and those which do not compete with each other as homogenous. The proposition is that if profit is adopted as the objective of a bank, any other objective which is not homogenous with profit cannot be termed as an objective. It would really be a constraint on the achievement of the objective—may be a very necessary constraint, a very real constraint, a very desirable constraint, but a constraint all the same. Fulfilment of social obligations, to the extent it tends to adversely affect the stated objective, namely, profit, as it often in fact does, goes against the accepted objective and is, to that extent, a "constraint" on a bank's objective. It cannot be an objective by itself. On the other hand, logically speaking, if fulfilment of social obligations forms the objective of a bank, profit cannot be made an objective, to the extent most profitable activities may not be in tune with social obligations. The two are thus largely contradictory objectives : if one is accepted as an objective the other has to be viewed as a constraint.

There should be no disagreement that clarity of objectives at all levels in an organisation is very necessary for better fulfilment of objectives by the organisation. Any confusion in the minds of members in the matter of objectives will lead to their pulling in different directions, to the detriment of either or both or all of the objectives. The point to be considered, however, is whether any two objectives can at all be entirely homogenous. Let us take a case where there are two objectives. If the objectives mean one and the same thing, they really represent only one objective. If, on the other hand, the words are exact opposites of each other, like profit and loss, the two are obviously entirely incompatible as objectives. A third and more common possibility would be where the two represent a combination of various degrees of homogenity and heterogenity. Between the two terminals of total identity and total incompatibility, there could be, and often is, a range of homogenous or heterogeneous objectives. To take up one example, even profit and growth, which in most cases go together, are

not entirely homogenous objectives. Many times, optimisation of profit could be better achieved by putting a brake on growth, even though growth could be interpreted in various ways. What is thus more relevant here is not absolute homogenity of objectives, but the degree of homogenity between different objectives. It follows, therefore, that the total homogenity of objectives would be a rare phenomenon, and if this is stipulated, it would be quite unrealistic. Indeed, even a norm stipulation here would be hazardous. What could be more reasonable is to merely observe that the more homogenous the objectives, the easier it is to perform the various tasks, which together help reaching the objectives an organisation has set before itself. The choice then would lie between easier (more homogenous) objectives and difficult (less homogenous) objectives. The impossible objectives, where the two objectives run totally and irrevocably counter to each other, do not merit consideration. The task becomes more difficult the more heterogeneous are the objectives, because then the job of achieving harmony between different objectives itself becomes a very difficult job.

In the environment obtaining today, banks cannot ask for easy options. It is, therefore, possible, and in today's setting necessary, for banks to adopt the twin objectives of profit and fulfilment of social obligations. It is not always that fulfilment of social obligations would eat into profits, even in the conventional accounting sense. Many proposals with social content are viable banking propositions or have the potentiality of being such in the long run. Many are not regarded as viable propositions because viability itself is defined on the basis of historical experiences not necessarily relevant to the cases on hand, which again is partly due to social obligation not being seen as an objective. If, additionally, the concept of social costing or the cost of not heeding to social responsibilities is introduced, i.e., profit is interpreted in a wider sense, the twin objectives in most cases would even today harmonise.

At the same time, it is true that the two objectives of profit and fulfilment of social obligations are not entirely compatible always. The effort will then have to be made to harmonise them. Where they cannot be harmonised and lead to conflict situations, it would become necessary to lay down policies as to which objectives will have precedence. Since not all situations can be visualised in advance, many conflict situations will need to be handled by line managers within laid-down policy guidelines, as they best understand. The risks of wrong judgement are no doubt there, but these would be no greater than when an objective conflicts with an important, realistic and desirable 'non-objective' or constraint under present circumstances.

To sum up, it is logically possible for banks to adopt the twin objectives of profit and fulfilment of social obligations.

On the behavioural plane, it is all the more necessary that fulfilment of social obligations acquires the status of an objective of banks. This is essential for achieving the emotional integration of all the employees of banks with the social obligations of banks. It is widely and with good reason believed that today's inadequacies in the fulfilment of social obligations by banks are principally due to lack of such integration. It is not perceived at all levels as an objective. By perceiving it as a "constraint" on the achievement of the objective of a bank, namely, profit, howsoever real, necessary or desirable the constraint, all operating levels would develop an emotional antipathy towards it. Granting that "constraint" may not have a value tag attached to it, on the emotional plane, a constraint always gets understood as a hindrance; a necessary, unavoidable, undesirable obstacle; a barrier in the pursuit of a goal. The logical outcome of this is that the system gets geared to this perception — Head Office would question, in a routine manner, a branch, whose profits have gone down because of, say, a high level of DIR advances, and although the branch manager would be able to answer the query, the feeling of having done something undesirable would persist. Indeed, the guilt complex would still be there,

even if no questions are asked, when a branch manager, true to his salt, finds that his profits are declining because of such advances. Lots of explaining will be there at all operating levels, in performance reports, in balance sheets, to oneself and to higher authorities and these explainings will not be neutral, emotionally speaking. These responses resulting from profit being treated as an objective and fulfilment of social obligations being treated as a constraint, will (and do) undoubtedly affect fulfilment of social obligations by banks. As a matter of fact, even the word "social obligations" suggest compulsion, which might generate hostility — "social commitment" or "social responsibility" would be better.

We may, therefore, say by way of conclusion that from the rational angle as well as the human angle, fulfilment of social obligations should be clearly spelt out as an objective of banks. Once this is done, it would be necessary and possible and relatively easy to design systems for achieving this objective, by carrying out suitable modifications in performance reports, performance appraisal forms, etc. A further logical step would be to build this objective into the impending restructuring of banks.

(**Shri L. G. Kulkarni** is the Chief Officer in the Organisational Planning Department at the Bank's Central Office.)

20-Point Economic Programme: Role of Commercial Banks

Janki Ballabh and J. Ramani

Planned efforts for economic development will be meaningful to the average Indian only if the benefits of economic development accrue increasingly to the less privileged strata of the society. Despite a number of legislative and administrative measures and various developmental programmes, the fruits of development have not percolated to a large majority of people and consequently, the prevailing inequalities have continued, more or less, unabated. The draft Fifth Five Year Plan has identified the twin causes of poverty among the masses as underdevelopment and inequality and has stressed that, "no rate of growth that can be realistically envisaged

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could make a major impact on the problem within the foreseeable future, if inequality remains as acute as at present". The unprecedented inflationary pressures witnessed during 1973 and 1974 not only caused a major set-back to the country's developmental efforts but also tilted the balance further against the weaker sections of the society. Against this background, the 20-Point Economic Programme announced by the Prime Minister in her address to the nation on July 1, 1975, marks the beginning of a new era for the poor and the down-trodden. Besides aiming at an all-round and faster growth of the economy, the Programme lays special emphasis on directing the benefits of economic development to the large number of people belonging to weaker sections of the society, namely, landless labourers, bonded labourers, small and marginal farmers and artisans.

Not all the points contained in the package of economic measures are new. The problem of rural poverty and indebtedness, miserably low level of wages and harsh conditions of work for millions of landless labourers including bonded labourers had been too long with us. As the Prime Minister herself said, "some of the measures were new, but others had been set forth earlier and required to be pursued with greater vigour and determination". This is particularly true of the measures relating to ceilings on agricultural land and distribution of surplus land among the landless, provision of house sites for farm labourers, improvement in irrigation facilities and control of speculation in urban land. A striking feature of the 20-Point Economic Programme is its realistic approach and the sense of urgency it has generated in the country about these matters. It represents a multi-pronged attack on the immediate problems facing the country and seeks to increase production of essential commodities, to curb economic offences by taking deterrent action against the offenders, to control inflation and to ameliorate the conditions of the weakest among the weaker sections of the population. The announcement of the 20-Point Programme has helped in restoring discipline in national life and imparted a sense of direction in the management of the economy.

Banks, like other public institutions, have to effectively respond to the emerging needs of the community in which they function and contribute to the economic development and welfare of the society. To quote the Prime Minister, "To the millions of small farmers, artisans and other self-employed persons, a bank can be a source of credit which is the very basis of any effort to improve their meagre economic lot".

Out of the 20 points, there are as many as 12 points where banks have a definite role to play. These are as under :

1. Procurement and distribution of essential commodities (Point No. 1)
2. Assistance to landless labourers being allotted land (Point No. 2)
3. Assistance to landless labourers being allotted house sites (Point No. 3)
4. Assistance to released bonded labourers (Point No. 4)
5. To fill the credit gap following moratorium on rural indebtedness and its progressive liquidation (Point No. 5)
6. Implementation of minor irrigation programmes (Point No. 7)
7. Assistance to the handloom sector (Point No. 9)
8. Workers association in industry (Point No. 15)
9. Assistance to holders of national permit for road transport (Point No. 16)
10. Scheme of supplying essential commodities to students in hostels (Point No. 18)
11. Scheme of supplying books and stationery to students at controlled prices (Point No. 19)

12. Apprenticeship scheme for enlarging employment and training opportunities (Point No. 20).

The basic policies of the banks, especially after the nationalisation of major commercial banks, have been generally in line with the spirit of the 20-Point Programme. Several points of the programme like procurement and distribution of essential commodities, extension of minor irrigation facilities, credit to handloom sector and road transport operators, were being implemented by the public sector banks in various measures. The beneficiaries of these programmes constitute priority sectors for bank credit. The coverage of the priority sectors has now been amplified by the 20-Point Programme. An attempt is made in what follows to assess the tasks involved under each of the points of the 20-Point Programme where banks have a role to play and to identify the action points for the banking system in general.

1. Programme for Procurement and Distribution of Essential Commodities

The public sector banks have already been supporting food procurement operations of the Central and State procurement agencies. The banks' activities in the field of financing of distribution network for essential commodities have to be directed, on the one hand, to discourage financing for hoarding of essential commodities and on the other, to provide credit support to agencies whose operations are likely to be conducive to bring down prices. As organisations like consumers' co-operative stores, fair price shops, super bazars, etc., are an effective instrument for ensuring equitable distribution of essential commodities at fair prices, banks can provide financial support to these vital distribution channels. In addition to meeting the financial requirements, the banks can also encourage unemployed youths in areas where distribution network is found to be insufficient to set up co-operative stores or fair price shops. This will not only

help holding the price line but would also increase avenues for employment.

Small traders dealing in essential commodities can also be provided with credit support. However, while financing small traders, a selective approach will be necessary. Such traders need to be given credit support only in areas where the public or co-operative distribution network is non-existent/ inadequate.

One aspect of financing the distribution of essential commodities, which requires special attention, is the distribution arrangements in hilly terrain and areas which are usually inaccessible and cut off from the rest of the country during winter/rainy seasons. It is not possible to replenish the supplies of essential commodities in such areas when needed and scarcity conditions are experienced many times. Banks' branches established in such areas may have to finance storage of essential commodities to ensure their continued availability at reasonable prices. Care will, however, have to be exercised to ensure that the finance is not misutilised.

2. Assistance to Landless Labourers being Allotted Land

A total of 35 lakh acres of land is likely to become surplus as a result of the implementation of the new land ceiling legislation. According to press reports, about 18 lakh acres have already been declared surplus. Of these, about 5 lakh acres have, so far, been distributed among 1.20 lakh landless labourers throughout the country. In some States, the land distribution is at the rate of one acre per person, while in others, the distribution per head ranges from 2 to 5 acres. Maharashtra Government has, so far, distributed over 2 lakh acres of land.

The new allottees of land urgently require finance for both development of land as well as for raising of crops

and taking up allied activities. Keeping in view the large number of landless agricultural labourers in the country, the size of the farms to be allotted is bound to be small. However, as highlighted by the Reserve Bank's study of small farmers, given the same agro-economic conditions, small farmers can do as well as the large farmers. Small farmers, therefore, deserve help not only on humanitarian grounds but also on account of their considerable contribution to agricultural production. Since these farmers are the people of small or no means, they have to be provided with finance on reasonable terms and also with technical guidance and accessible marketing channels. Their initial problems can be effectively tackled and future growth assured by organising farmers' service societies at centres where there is concentration of such small farmers. The banks would have to draw up specific action plans to cover as large a number of the new allottees of land as possible. First of all, it would be necessary to obtain the lists of new allottees of land from the concerned State/District administrative authorities. After identifying the new allottees of land, their credit needs both for development of land and for working capital purposes will have to be ascertained. The agencies which have to provide credit support to such persons are the co-operative credit institutions, commercial banks and the newly set Regional Rural Banks. While the credit needs of such persons can be met by banks within their existing schemes of financing of agriculture, their activities will have to be considerably expanded. In areas not covered by commercial banks, co-operative institutions or the Regional Rural Banks will have to step up their activities. If necessary, co-operative institutions will have to be strengthened. All this calls for a very close liaison between credit institutions and the concerned State/District authorities right from the very beginning.

3. Assistance to Landless Labourers being Allotted House Sites

Over 6 lakh house sites have already been allotted to the landless and weaker sections under the 20-Point

Programme. The work has been substantially completed in a number of States. Of the house sites allotted, more than 3,68,000 house sites are developed sites. Some States like Kerala, Karnataka Tamil Nadu, Madhya Pradesh, Maharashtra, Orissa and West Bengal have drawn up programmes for construction of houses on the house sites allotted to the landless and/or for providing assistance to allottees in construction of houses. So far, over two lakh houses have been constructed. A committee is being set up by the Reserve Bank of India to examine the question of financing construction of houses by commercial banks. Meanwhile, in view of the importance assigned to housing for the weaker sections in the 20-Point Programme, the Reserve Bank has laid down certain tentative guidelines in regard to provision of bank finance for housing schemes. The schemes considered eligible for bank finance are: rural housing schemes, housing as well as hostels for scheduled castes and tribes, slum clearance schemes, family planning clinics and rural health centres covered under public health programmes and urban housing schemes for low income groups.

More than the financing of construction of houses, the banks should concern themselves in providing suitable financial assistance to the allottees of house sites for taking up gainful employment in productive activities which would, in due course, generate surplus to enable them to become self-sufficient and repay the bank loan.

4. Assistance to Released Bonded Labourers

Under the system of bonded labour, a debtor entered into an agreement with the creditor forfeiting his freedom of employment or other means of livelihood or the right to move freely and, thus, rendering himself a veritable slave to his master. He worked for the creditor at an absurdly low wage. Once bonded by debt, the curse of slavery was handed down from generation to generation, with the initial debt snowballing into irredeemable proportion. The measures taken under the 20-Point Programme for

the emancipation of bonded labourers are, therefore, of immense social importance.

Ever since the plight of bonded labourers gained national focus, the Government has taken several legislative and administrative measures on bondage, indebtedness and payment of minimum wages to farm labourers. Through the promulgation of the Bonded Labour System (Abolition) Ordinance 1975, which has since been passed by the Parliament as an Act, the practice of bonded labour in any form has been held as void and inoperative. The Act also provides that any obligation of a bonded labourer to repay any bonded labour debt shall be deemed to have been extinguished. Also, the bonded labourer freed from bondage will not be evicted from his homestead/land.

The Government of India has constituted a high power committee under the Chairmanship of Shri N. P. Dubey, Secretary, Ministry of Labour, to co-ordinate programmes regarding rehabilitation of released bonded labourers. The State Governments have also been asked to set up a committee at the State level under the chairmanship of the Chief Secretary to assess the progress in the rehabilitation of bonded labourers. The State Governments have also been asked to set up a cell of officers in each of the concerned blocks, which will co-ordinate activities of co-operative institutions, banks, Khadi and Village Industries Boards, Animal Husbandry Department and Agriculture Department, regarding rehabilitation of bonded labourers. The State Governments have also been asked to consider the question of allocation of house sites, land for cultivation and requisite inputs for agricultural operations. In areas where land is not available, the labourers are to be inducted into some allied programmes like poultry farming, sericulture, village industries, etc.

The States and the Union Territories which have reported that there is no bonded labour system in their areas are: Maharashtra, Haryana, West Bengal, Jammu and Kashmir, Manipur, Meghalaya, Tripura, Nagaland,

Sikkim, Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli, Delhi, Goa, Daman and Diu, Lakshadweep, Pondicherry and Arunachal Pradesh. According to the available data, 581 bonded labourers were freed in Palamau district in Bihar. In Karnataka, 22,821 bonded labourers have been released in Mysore district alone. In Uttar Pradesh, the bonded labour system was reported to be in vogue in districts of Hamirpur, Uttar Kashi, Mirzapur and Dehra Dun. Some bonded labourers have been freed in Andhra Pradesh and Rajasthan.

Judged by the number of bonded labourers identified so far, the task of rehabilitating them in gainful employment would not appear to be much difficult quantitatively. The major problem in the rehabilitation of bonded labourers is that they are scattered over wide areas and the process of their identification is likely to be difficult.

While preparing the schemes for rehabilitation of bonded labourers, one thing will have to be borne in mind by the banks. These persons who had been subjected to inhuman conditions of work for long would have been devoid of all initiative and confidence. The approach in their cases would have to be innovative and developmental. While such of the bonded labourers as have been allotted land for cultivation can be financed for taking up farming activities, others will have to be rehabilitated in occupations which suit their abilities and background.

5. Liquidation of Rural Indebtedness

One of the most important measures contained in the 20-Point Programme to ameliorate the lot of weaker sections is the liquidation of rural indebtedness and moratorium on recovery of debts from landless labourers, small farmers and artisans.

The problem of rural indebtedness is quite widespread. The All-India Debt and Investment Survey-1971-72 conducted by the Reserve Bank of India has indicated that about

43 per cent of the rural households were in debt at the end of June 1971 and the total amount of debt stood at Rs. 3,921 crores. Most of the rural debts are owed to sources other than institutional sources of finance. The findings of the Reserve Bank's study of small farmers have highlighted the lack of institutional credit facilities for small farmers. Out of the 12 districts covered by the study, the record of co-operatives was dismal in 11 districts. The bulk of the credit requirements of small farmers in 11 out of 12 districts were met by private credit agencies including landlords, professional money-lenders, agriculturist-money-lenders, agriculturists-cum-traders, traders and commission agents and relatives. Commercial bank credit was conspicuous by its absence in 10 districts.

Many States have gone ahead with implementing moratorium on rural indebtedness. Though this measure is likely to provide some relief to the weaker sections of the rural community, this alone will not improve the lot of these people unless simultaneous measures are taken to see that these people are not again forced to go to money-lenders and be again in debt. Commercial banks, co-operative institutions and the Regional Rural Banks have to play a very important role in this direction by taking upon themselves the task of meeting the integrated credit needs of this section of rural community.

Banks can meet the credit requirements of small farmers, artisans, landless labourers and other weaker sections for productive purposes under their existing schemes of financing agriculture, small scale industries, small business, etc. Schemes have been formulated by some public sector banks with a view to providing financial assistance to persons engaged in various occupations, which normally do not conform to the lending norms of banks. For instance, the State Bank of India, under the scheme of Innovative Banking, has covered various activities, which are not ordinarily eligible for bank finance, for assisting by way of credit and technical support. Efforts have been made through imaginative and innovative

approach for identifying and meeting the financial and counselling needs of various weaker sections of the community like tribals, Harijans, convicts, ex-convicts, physically handicapped and disabled, lepers, slum-dwellers, self-employed and under-employed women, etc. The D.I.R. Scheme of concessional lending assumes added importance in the context of meeting the credit needs of the weaker sections. Accent will have to be on securing extension of these schemes to cover a larger number of people belonging to the weaker sections of the society and on improving their implementation. In areas not covered by the D.I.R. Scheme, credit would have to be provided on reasonable terms especially to persons belonging to the lower strata of the community such as Harijans, tribals, released bonded labourers, etc. These people should also be encouraged to form co-operatives. This will facilitate flow of finance to these people and its proper utilisation.

6. Implementation of Minor Irrigation Programmes

Of the net area under cultivation in India, only 22.2 per cent is irrigated. The vulnerability of India's agriculture to the vagaries of the monsoon has made it imperative to accord irrigation a high place in the programme of economic development. The utilisable surface and underground water resources were assessed by the Irrigation Commission in 1972 at 87,000 crore cubic metres. Against this, the utilisation was about 33,700 crore cubic metres or 38.7 per cent by March 1974. This shows that there is still scope for utilising 61.3 per cent of the water potential of the country. Accordingly, the 20-Point Programme provides for bringing 5 million more hectares under irrigation and preparing national programme for the use of ground water.

All the commercial banks have schemes for financing wells, tube-wells, installation of pumpsets, etc. Banks are also financing lift irrigation schemes and participating in the implementation of minor irrigation programmes under I.D.A. scheme. In order to achieve the target of additional 5 million

hectares of area under irrigation, the banks will have to increase their coverage substantially.

Under the Lead Bank Scheme, the banks are preparing credit plans in respect of their lead districts. These plans contain details of ground water resources in the districts and minor irrigation programmes considered appropriate and feasible. These schemes should be taken up for implementation on a priority basis.

7. Development of Handloom Sector

Handloom industry is next only to agriculture in the number of people employed. There are about 30 lakh handlooms in the country and about 10 million persons depend upon this industry for their livelihood. The annual production of the industry is at present around 2,200 million metres. Nearly two-thirds of the handloom weavers are in rural areas. Thus, the handloom industry is a predominantly rural activity. Despite the enormous importance of the industry, it has not developed on proper lines.

Since the announcement of the 20-Point Programme, several measures have been taken to ensure the growth of handloom industry on proper lines. A Development Commissioner for handlooms has been appointed and a five-year plan with a total outlay of Rs. 308 crores has been launched from the 1st April 1976 for the development of the industry. Of the total outlay, as much as Rs. 240 crores are expected to be financed by financial institutions. Of the balance of Rs. 68 crores, the Centre will contribute Rs. 55 crores and the States Rs. 13 crores.

Banks are expected to play a crucial role in the implementation of the new development plan for handlooms by providing credit support for viable schemes. As handloom units in the co-operative sector are financed mostly by co-operative agencies, which have access to liberal refinance on soft terms from the Reserve Bank of India, banks should

direct their efforts to cover as large a number of units outside the co-operative fold as possible. In keeping with the spirit of the 20-Point Programme, special schemes will have to be devised to take care of the requirements of the handloom weavers right from the stage of procurement of raw materials to the stage of marketing of finished products. There is ample scope for improving productivity of handlooms by converting a large number of pitlooms into fly shuttle handlooms.

8. Workers' Association in Industry

At the industry level, the Government has constituted a National Bipartite Body for the banking industry where both bank workers and officers are represented. At the individual bank level, representation is given on the Board for one Director each representing workmen employees and non-workmen employees.

With a view to monitoring the progress in the implementation of the recommendations on improving customer service in banks, the Working Group on Customer Service, in its interim report, recommended that each branch must set up a customer service committee comprising branch manager and representatives of all categories of staff to overview the quality of customer service dispensed by the bank. The implementation of this recommendation will result in greater involvement of staff in toning up the efficiency and improvement in customer service in banks.

9. National Permit Scheme for Road Transport

Restrictions in the form of restrictive regulations on routes and areas of operation, hold-ups at numerous octroi and other check-posts have been adversely affecting the movement of goods traffic by road. To remove the constraint on the movement of goods by trucks, a system of national permits is being introduced. This is likely to reduce the transport bottlenecks and ensure smooth movement of industrial raw materials to factories and finished goods and food-

grains to consuming centres, thereby removing pockets of scarcity and surplus in the country.

For implementation of the National Permit Scheme, the Motor Vehicles Act, 1939, has been amended. The Scheme provides for the issue of 5,300 national permits which have been allotted State-wise. The permit would authorise a public carrier to operate throughout the country or in 5 or more contiguous States. To meet the social purpose underlying this scheme, 25 per cent of the permits have been reserved for new entrepreneurs including ex-army personnel and unemployed drivers. The Union Ministry of Transport and Shipping has fixed a ceiling of 250 national permits for trucks to be issued by any State or Union Territory. States with goods vehicles of more than 5,000 could have a maximum of 250 permits each, those having goods vehicles between 1,000 and 4,990 could have a maximum of 200 each and those having less than 1,000 vehicles only 50 each. So far, seven States and Union Territories have issued 850 national permits. These are West Bengal (202), Haryana (200), Himachal Pradesh (163), Bihar (150), Delhi (75), Madhya Pradesh (55) and Chandigarh (5). All commercial banks have schemes of financing transport operators under which the allottees of national permits can also be financed. The Reserve Bank of India has advised all commercial banks to provide adequate finance to all entrepreneurs who have been allotted national permits. It will be necessary for banks to maintain a close liaison with the concerned State authorities in order to identify the national permit holders and assess their requirements of bank finance.

10. Supply of Essential Commodities at Controlled Prices to Students in Hostels, Books and Stationery at Controlled Prices

In regard to the implementation of these 2 points of the 20-Point Programme, banks could render assistance by meeting the working capital needs of viable schemes evolved by organisations or agencies which undertake procurement and

distribution functions in this regard. For this purpose, it will be necessary to keep close liaison with local educational institutions and hostels run by them or other social organisations.

These are the areas where the banks will have to play a key-role. Banks are no longer regarded as traders in money but have assumed the role of a change agent in the process of the country's socio-economic development. The task ahead is, no doubt, challenging one. A number of schemes have already been launched by banks. However, considering the magnitude of the task involved, their lendings will have to be considerably expanded. The expansion in coverage will have to be brought about by drawing up specific schemes for implementation in selected areas. The integrated economic development plan for an area should encompass all economic and social needs of the local people and should contain bankable schemes which can be immediately financed and implemented within the broad areas of priority sectors under a time-bound programme. This would, no doubt, require very active collaboration from the concerned Government agencies. In fact, implementation of the 20-Point Programme would involve co-ordination on day-to-day basis between financial institutions and Government administration at all levels. For effective implementation of the 20-Point Programme, it will be necessary to continuously monitor the progress made and take necessary corrective steps, wherever required.

Another prerequisite for the successful implementation of the 20-Point Programme by the banks is the proper involvement of their employees at all levels. Various banks already have their training programmes for improving skills of their employees at various levels. These programmes, if necessary, should be redesigned to bring about a new social orientation to the employees. Once this is achieved, the

banks would be truly responsive to the needs of the community, particularly the underprivileged sections thereof. The 20-Point Programme presents an opportunity to banks to redeem their pledge to the community as national institutions. Banks would, no doubt, rise to the occasion.

(**Shri Janki Ballabh** is a Staff Officer and **Shri J. Ramani** is an Officer in the Bank's Economic and Statistical Research Department.)

Current Topics

The 1975-76 Busy Season

The 1975-76 busy season was characterised by a record credit expansion, a larger deposit accretion, a heavy rise in the borrowings from the Reserve Bank of India and an increase in investments in Government securities of all scheduled commercial banks.

Business of Scheduled Commercial Banks: Variations during the Busy Seasons

(Amount in crores of rupees)

	1973-74	1974-75	1975-76
1. Aggregate deposits	+627 (+6.5)	+784 (+7.0)	+1,218 (+9.2)
(a) Demand deposits	+357 (+8.8)	+316 (+6.7)	+395 (+7.3)
(b) Time deposits	+270 (+4.8)	+468 (+7.1)	+823 (+10.7)
2. Credit (excluding due from banks)	+1,111 (+17.1)	+935 (+12.1)	+1,758 (+18.9)
(a) Food procurement advances	+188 (+80.0)	+316 (+124.4)	+872 (+117.4)
(b) Non-food advances	+923 (+14.7)	+619 (+8.3)	+886 (+10.4)
3. Investments in Government securities	+73 (+3.1)	+117 (+4.3)	+345 (+11.2)
4. Borrowings from the Reserve Bank of India	+253	+183	+627
5. Bills rediscounted by the Reserve Bank of India	+232	+59	+44
6. Cash and Balances with the Reserve Bank of India	—214	—79	+125
7. Ratios (end-April) (%)			
(a) Credit-deposit ratio	73.69	72.15	76.86
(b) Investment-deposit ratio	23.25	23.84	23.90
(c) Cash-deposit ratio	7.60	6.85	7.03

Figures in brackets indicate percentage variations.

Credit Expansion

Credit expansion during the last busy season at Rs. 1,758 crores showed an almost two-fold increase over Rs. 935 crores in the 1974-75 busy season. Nearly half of the credit expansion was on account of public food procurement credit, which registered a sharp increase of Rs. 872 crores (117.4%) compared to the rise of Rs. 316 crores (124.4%) in the preceding busy season. The rise in non-food credit at Rs. 886 crores (10.4%) was also much larger than Rs. 619 crores (8.3%) during the 1974-75 busy season. The increase was in tune with the upward trends in production of both agricultural and industrial sectors during this period. The reliance on bill rediscount, which was kept to a minimum during the 1974-75 busy season, was further curbed during the last busy season inasmuch as the increase in the bills rediscounted with the Reserve Bank of India was only Rs. 44 crores as against the rise of Rs. 59 crores in the preceding busy season. The credit-deposit ratio increased by 6.2 percentage points during the 1975-76 busy season as against the increase of 3.3 percentage points registered in the previous busy season.

Deposit Growth

Aggregate deposits of scheduled commercial banks recorded a higher growth of Rs. 1,218 crores or 9.2 per cent during the 1975-76 busy season than Rs. 784 crores or 7.0 per cent during the previous busy season. The higher growth of deposits, both in percentage and absolute terms, was largely due to the attractive deposit rates structure in the context of relative stability on the price front. The declining trend in prices witnessed in the last quarter of 1974 continued all through 1975 till March 20, 1976. One significant aspect of deposit accretion during the last busy season was that the rise in time deposits was more marked than in demand deposits. Thus, time deposits rose by Rs. 823 crores (10.7%), which was almost twice the growth of time deposits of Rs. 468 crores (7.1%) witnessed during the preceding busy season. Demand deposits also recorded a higher growth of Rs. 395 crores (7.3%)

than Rs. 316 crores (6.7%) during the 1974-75 busy season. As a result, while the share of time deposits in the total deposit accretion went up from 59.9 per cent in the 1974-75 busy season to 67.6 per cent in the last busy season, the share of demand deposits came down from 40.1 per cent to 32.4 per cent.

The higher rise in credit than that of deposits led the banks to resort to heavy borrowings from the Reserve Bank of India. Borrowings from the Reserve Bank rose by Rs. 627 crores during the 1975-76 busy season as against the increase of Rs. 183 crores in the previous busy season.

Scheduled commercial banks increased their investments in Government securities by Rs. 345 crores (11.2%) against a rise of Rs. 117 crores (4.3%) in the 1974-75 busy season. The investment-deposit ratio at 23.9 per cent at the end of April 1976 was slightly higher than 23.8 per cent at the end of April 1975.

Credit Policy

The credit policy for the 1975-76 busy season was formulated by the Reserve Bank of India against the background of the continued need to keep the expansion in money supply under control and the equally urgent need to assist those industries which were facing a slackening of demand. As such, there was little scope for relaxation of monetary discipline and the broad structure of prevailing interest rates, viz., refinance and rediscount rates of the Reserve Bank and deposit and minimum lending rates of commercial banks. The Reserve Bank had emphasised that in planning their credit deployment, banks should give primary attention to the requirements of public food procurement, agriculture, fertiliser distribution, exports, public sector manufacturing units, industries in core and mass consumption areas, small borrowers including small scale industries and term loans to stimulate investment in priority areas.

The Reserve Bank had also advised the banks that the overall credit expansion during the 1975-76 busy season had

to be sustained in the main through the banks' own resources after providing for statutory liquidity requirements and that the Reserve Bank's support except in respect of food procurement credit, would be essentially of a limited and temporary nature to enable the banks to meet the pressure of seasonal demands. With a view to regulating both the cost and availability of Reserve Bank refinance more effectively, the system of refinance based on net liquidity ratio was discontinued. Instead, the banks were entitled to a basic refinance limit equal to 1 per cent of demand and time liabilities as on the last Friday of September 1975 at a fixed interest rate of 10 per cent. The refinance formula with regard to financing public food procurement operations was re-adjusted. Refinance equal to 50 per cent of the increase in outstanding public food procurement credit between Rs. 450 crores and Rs. 600 crores and 100 per cent of the increase in credit over an outstanding level of Rs. 600 crores was made available. Refinance for food procurement was made available at 10 per cent and banks were required to charge interest not exceeding 12 per cent on their advances for this purpose. The refinance formula was to be in force so long as public food procurement advances did not exceed Rs. 900 crores. All other refinance accommodation was strictly at the discretion of the Reserve Bank after taking into account the banks' general compliance with policy objectives, their credit-deposit ratio, sectoral priorities in deployment of credit and any special considerations that were relevant in individual cases. The rate of interest on such other refinance ranged from 11.5 per cent to 18 per cent. A basic bill rediscount limit equal to 10 per cent of total bills purchased and discounted by banks as on the last Friday of September 1975 was made available at the Bank rate. Additional bill rediscount limits were granted at the discretion of the Reserve Bank.

In order to bring about a measure of manoeuvrability in the credit operations of banks, certain measures of flexibility were also introduced. The additional margins on book debts and inventories imposed in November 1973 were withdrawn. Under the selective

credit controls, the margins on bank advances against sugar, groundnuts, paddy, cotton textiles and other essential consumer goods other than foodgrains were lowered. The system of levying a commitment charge of 1 per cent by banks on the unutilised portion of cash credit was also withdrawn. Banks were told to charge a rate of interest not exceeding 15 per cent on term loans for periods beyond three years. The minimum limit in respect of prior credit authorisation was raised from Rs. 1 crore to Rs. 2 crores for private sector undertakings.

Legal Decisions

On Banking

Whether the Amount of Provident Fund Paid to the Nominee is Liable to Estate Duty

S. Balam

vs.

Controller of Estate Duty, Madras

31st January 1975

Tax Case No. 81 of 1969

Contributed by S. R. Darekar

The question referred to the High Court in this case for its consideration was whether on the facts and in the circumstances of the case the amount of Rs. 1,04,794 paid to the widow of the deceased from the I.C.S. (Non-European Members) Provident Fund was liable to estate duty in the hands of the widow who was the nominee in this case. Shri Sundaram, who was a member of the Indian Civil Service, subscribed to the Indian Civil Service (Non-European Members) Provident Fund and at the time of his death in 1960 a sum of Rs. 1,04,794 was to his credit in the said fund. This amount was paid to his wife who had been nominated as the person entitled to receive

the amount in the event of his death before retirement. The Assistant Controller of Estate Duty brought the amount to tax under Section 15 of the Estate Duty Act on the death of Shri Sundaram. This inclusion was confirmed on appeal by the Appellate Controller and the Tribunal. The Controller of Estate Duty contended that the deceased was throughout the owner of the fund and the nomination made by him was only in the nature of a testamentary disposition taking effect after his death and that the property clearly passed on the death of the deceased. On the other hand, the contention of wife was that the amount did not form part of the estate of the deceased since it was payable to the nominee direct, that the deceased had no disposable right over the amount, that the beneficiary had a vested right in the fund and that the amount did not form part of the estate of the deceased. She further submitted that on the subscriber's death the amount had to be paid to the nominee and that the sum of Rs. 1,04,794 was not, therefore, liable to estate duty.

At the outset, the High Court went through the relevant rules framed under the Indian Civil Service (Non-European Members) Provident Fund Rules, 1943, and held that there was nothing in the Rules to show that any one else had title to the fund during his life time. Throughout the Rules the amount was referred to as being to his credit and the power of disposal was consistent with its ownership of the fund subject to certain restrictions imposed by the Rules. If he were not the owner, he would not be in a position to deal with the fund without reference to the nominee. He was not required to take anybody's consent before he made a change in the nomination. The High Court also went through certain relevant sections of the Provident Fund Act, 1925, and held that the Provident Fund Act would supplement the provisions of the Rules of the Indian Civil Service (Non-European Members) Provident Fund to the extent to which the rules were silent on any matter. Thus taking both the Provident Fund Act and also the Indian Civil Service (Non-European Members) Provident Fund Rules the position was that the subscriber had property in the fund till his death. It passed to the nominee only on his

death. The restrictions imposed on the subscriber to nominate persons of his family did not in any way detract from his ownership of the fund. The contention of the wife that during the subscriber's life time he had absolutely no title to the amount had no force as the subscriber had power to change the nomination, to withdraw the amount for certain purposes or to be paid the amount if he survived during the period of his employment. The High Court, therefore, held that the subscriber had a property in the fund which passed on his death. The provisions of Section 5 of the Estate Duty Act would, therefore, apply in this case as property in the amount passed on his death. Section 6 would also apply because the subscriber had power to change the nomination during his life time. He was to that extent competent to dispose of the fund and there would be a deemed passing of property on his death in accordance with Section 6 of the Act. In the result, the question referred to was answered in the affirmative and against the assessee.

(Shri S. R. Darekar is Manager, Services Banking Division, at the Bank's Bombay Main Branch.)

Statistics

TABLE I

SELECTED ASSETS AND LIABILITIES OF BANKS IN INDIA

(Rupees in crores)

	Position as on 25-6-1976	A Month Ago 28-5-1976	A Year Ago 27-6-1975
State Bank of India			
Aggregate Deposits:	3,545.7	3,485.0	2,875.1
Demand (Exclusive of inter-bank transactions)	1,421.9	1,419.7	1,238.2
Time (-do-)	2,123.8	2,065.3	1,636.9
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	2,659.1	2,807.9	2,146.8
Investments in Government Securities	851.1	824.4	736.0
Associate Banks			
Aggregate Deposits:	805.9	800.4	687.1
Demand (Exclusive of inter-bank transactions)	335.1	338.7	291.6
Time (-do-)	470.8	461.7	395.5
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	645.7	626.1	515.8
Investments in Government Securities	143.7	142.4	123.9
All Scheduled Commercial Banks			
Aggregate Deposits:	15,056.3	14,726.4	12,544.5
Demand (Exclusive of inter-bank transactions)	6,070.5	5,988.0	5,256.5
Time (-do-) ..	8,985.8	8,738.4	7,288.0
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	11,463.7	11,352.5	8,954.5
Investments in Government Securities	3,430.6	3,398.8	2,888.6

TABLE II

SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	December 1975		December 1974	
	State Bank of India	Associate Banks	State Bank of India	Associate Banks
No. of Offices	3,831	1,814	3,409	1,719
Advances				
to Agriculture:				
(i) Direct				
No. of Accounts	7,88,732	1,60,271	5,58,295	1,08,307
Outstandings	176	53	119	37
(ii) Indirect				
No. of Accounts	13,417	3,313	7,864	3,450
Outstandings	65	20	58	17
to Small Scale Industries:				
No. of units	87,716	38,857	71,668	34,115
Outstandings	320	91	286	82
to Small Business:				
No. of Accounts	1,42,052	43,710	96,304	29,673
Outstandings	52	14	40	11
under Differential Interest Rates Scheme:				
No. of Accounts	1,79,730	42,192	1,08,411	25,305
Outstandings	8	2	4	1
for Exports:				
Outstandings	200	41	167	31

TABLE III

SELECTED ECONOMIC INDICATORS

	Position as on 25-6-1976	A Month Ago 28-5-1976	A Year Ago 27-6-1975
	(Amounts in rupees crores)		
1. Money Supply with the Public...	13,602	13,420	12,187
(a) Currency with the public ...	7,295	7,211	6,707
(b) Deposit money with the public	6,307	6,209	5,480
	April 1976	March 1976	April 1975
2. Foreign Exchange Reserves			
(a) SDRs* ...	19.85	20.28	23.11
(b) Gold ...	182.53	182.53	182.53
(c) Foreign Exchange ...	1,335.38	1,491.70	652.45
3. Money Rates	(Per cent per annum)		
(a) Bank Rate ...	9	9	9
(b) State Bank of India Advance Rate ...	14	14	14
(c) State Bank of India Hundi Rate ...	14-16	14-16	14-16½
(d) Call Money Rate (Bombay) ...	9.5	11.2	13.3
(e) Bazar Bill Rate (Bombay) ...	21	21	21

*In crores of SDRs.

TABLE III

SELECTED ECONOMIC INDICATORS (Contd.)

		February 1976	January 1976	February 1975
4.	**Index Number of Industrial Production** (1970=100)			
	General Index	131.9	131.5	116.3
		Week ended 26-6-1976	Week ended 29-5-1976	Week ended 28-6-1975
5.	**Index Number of Wholesale Prices** (1961-62=100)			
	All Commodities	301.7	292.7	311.0
	Food Articles ...	331.0	318.0	368.7
	Liquor & Tobacco	323.1	326.3	317.8
	Fuel, Power, Light and Lubricants	369.0	368.5	326.3
	Industrial Raw Materials ...	297.2	268.8	281.1
	Chemicals	295.0	295.0	329.4
	Machinery and Transport Equipment ...	259.5	259.4	261.7
	Manufactures ...	258.0	257.4	251.3
		March 1976	February 1976	March 1975
6.	**Consumer Price Index Number for Industrial Workers—All-India** (1960=100) ...	286	290	321
7.	**Foreign Trade**		(Rupees in crores)	
	Total Imports ...	369.1	305.7	505.6
	Total Exports (including re-exports) ...	463.9	376.1	403.6

ज्ञानं ज्ञेयं परिज्ञाता, त्रिविधा कर्मचोदना।

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Banking for the Weaker Sections*

L. D'Mello

Economic Policy

Indian economic policy has been founded on the philosophy of economic growth with social justice. The relative emphasis on economic growth on the one hand and social justice on the other has tended to shift in favour of the latter in the course of the last 25 years. Increasingly, plans for economic development have embodied schemes specially designed to ameliorate the economic conditions of small and landless farmers, artisans, people engaged in cottage industry, tribals and people in hilly areas. It has, however, been realised that despite this orientation in policy and programmes and administrative measures taken to assist the less privileged strata of the Indian society, the lot of the poor has continued to be bad. Economic growth has by-passed the poor whose number has increased over the last two and a half decades. It is in this context that the Prime Minister has announced the 20-Point Economic Programme to give a focus and a direction to the efforts of all developmental agencies engaged in making, financing and implementing developmental plans.

Role of Banks

Commercial banks are very important agencies of development in our country. Due to the historical accident of their origin, they were oriented towards large scale industry and trade. The concept of security against advances precluded the banks from financing productive

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* Paper presented at the Seminar on "Role of Banks in the 20-Point Economic Programme" held at Mangalore on April 18, 1976 in connection with the Platinum Jubilee Celebrations of Corporation Bank Ltd., Mangalore.

The views expressed in this paper are those of the author and do not necessarily reflect the views of the State Bank of India and its Associate Banks.

activities of those who had no assets other than their labour. Indeed, they even neglected small scale trade and industry as also agriculture because the type of security these sectors could offer against advances was not acceptable to the banks. Government has been making conscious efforts to reorient the banks after social control was imposed in 1968 and especially after nationalisation in 1969. Banks have been persuaded to finance the priority sectors consisting of agriculture, small scale industry, transport operators, qualified entrepreneurs, retail traders and so on. The progress of financing these activities has been commendable; scheduled commercial bank advances to these sectors rose from about 21 per cent of the total advances in 1969 to over 36 per cent in December 1974. With the implementation of the 20-Point Programme now undertaken by the banks, the proportion of advances to these sectors may be expected to increase further and what is more, a new class of advances which directly benefit the poor will come to be an important part of the advances portfolio.

20-Point Programme

Of the 20-Points in the Programme, the ones with greatest potential for involvement of the banks and also the greatest impact on the poorer sections of the community are those pertaining to Point numbers 1, 2, 5 and 9 respectively dealing with distribution of essential commodities, distribution of surplus land to the landless, provision of credit to those whose sources of non-institutional credit have dried up and rehabilitation of the handloom sector. In programmes pertaining to provision of house sites for the landless and rehabilitation of the labourers who are released from bondage, banks' involvement will have to be in the form of providing credit for starting new vocations allied to agriculture. Direct financing of house building or employment of labourers who are freed from bondage may not be possible for the banks. In these two programmes, the banks have to act in conjunction with the administrative authorities at the village level and create

opportunities for gainful employment by financing co-operative societies or public works undertaken by village councils, panchayats and so on. The following detailed programmes can be worked out for enabling involvement of banks.

(a) Distribution of Essential Commodities: In regard to this, there has to be co-ordination between governmental organisations and banks. Banks have been asked to open at least one branch in every Community Development Block. All co-operative consumer stores can be financed by the branch of the commercial bank in every Block. In case a block has no co-operative consumer stores, block level and village level revenue officials may identify owners of retail stores who may be financed by commercial banks. In tribal areas, village councils or gram panchayats or any other similar body may be financed by the banks for opening consumer stores.

The programme of financing co-operative consumer stores or retailers may be especially undertaken in remote, hilly and tribal areas, because in such areas supply lines are slender and credit for trading purposes is not easily available.

(b) Financing of New Land Allottees: New allottees of land may find it difficult to obtain equipment and inputs for cultivating the land allotted to them. Some State Governments are making provision of credit for implements and animals. Lead Banks may be asked to supplement these and also provide crop loans. The programme of credit supply by banks should be co-ordinated with allotment of land itself jointly with the Government at the village and taluka levels. Banks may organise associations of new allottees which may be used for channelling of credit and supervision of the use of credit.

(c) Financing of Persons Whose Supply of Non-institutional Credit has Dried up: Banks may make special efforts to cover craftsmen in their respective areas of operation. To start with, district officials can identify workers in cottage industries in their respective districts

and arrange for provision of production credit through co-operative societies of such workers where they are in existence or on individual basis.

(d) **Financing of Handlooms:** Handloom industry is distributed all over the country, but there are some pockets of concentration where nationalised banks should make special efforts. Finance may be given to co-operative institutions or Government agencies engaged in providing yarn to handlooms as also those which are lifting the finished goods. Handloom workers may be provided production credit through their associations or co-operatives irrespective of the actual stocks of yarn and cloth in stock at any point of time. An average of inventory credit required may be worked out on a district-wise basis by the Office of Development Commissioner (Handloom) and indicated to the nationalised banks. The names of handloom workers also may be finalised by the Industries Officer in each district and communicated to the Lead Bank of the concerned district.

(e) **Minor Irrigation:** Of the 20-Point Programme, two, viz., those dealing with expansion of minor irrigation and power supply are already enjoying high priority in the list of programmes financed by the banks. Experience up to now has been that these programmes have benefited some areas and some sections of the population while not touching other areas and other sections. The bulk of irrigation finance, for instance, has gone to a few States and that too for richer type of farmers. Even in respect of these two programmes, therefore, there is a possibility of assisting weaker sections of the people by suitable modifications. Minor irrigation financed by the banks till now is for dug wells, tube-wells, installation of pumpsets and a few lift irrigation schemes. It is reported that richer farmers dig bigger and deeper wells, which adversely affect the supply of water of the shallow and smaller wells of the smaller farmers. Also, because smaller farmers cannot utilise the full potential of the tube-wells, finance is not available to them. Solution to this kind of problem should be to support progra-

mmes of exploiting surface water as far as possible. But surface water irrigation would necessitate levelling and development of land. This requires co-ordinated efforts of small and big farmers cultivating compact blocks of land. If administrative and financing agencies co-operate with one another, organisations for land development and levelling may be built up in all areas where lift irrigation schemes are financed. Where lift irrigation is not possible, tube-wells may be financed according to a plan of covering as large an area of land as possible irrespective of the ownership or cultivation rights. The farmers who are financed for tube-wells should be persuaded or, if need be, forced to sell water to the smaller farmers in the neighbourhood; similarly, smaller farmers must be compelled to buy water from the neighbouring tube-wells. This programme of action could have beneficial effects both on agricultural production and social justice.

(f) **Power Generation and Supply:** In the case of power generation and supply also, similar community-oriented programmes can be devised if proper co-ordination is effected between financing agencies, State Electricity Boards, Rural Electrification Corporation and State administrative authorities. Benefit of power supply may be extended to small farmers, whether owner or tenant cultivators and also to shopkeepers, cottage industry workers, etc., if financing is done on a community basis rather than individual basis.

Nature of the Problems

Banking for weaker sections should essentially mean financing, for production and consumption purposes, of landless and small tenant cultivators in the farm sector, workers in cottage industry, retail trade and miscellaneous occupations, both in rural and urban areas, and industrial workers and middle class people in towns. The weaker sections thus would be a more inclusive category than the priority sectors as defined during the last eight years. In respect of all these categories of people other than priority sectors as now understood, the main economic

asset is the labour power. Neither land nor capital equipment is available to the weaker sections. The problem of financing weaker sections, therefore, resolves itself into creating employment opportunities, increasing the staying power of the workers so that they are not forced to sell their labour for low wages or on terms of bondage and financing them during slack seasons. It implies also modification in the concept of repayment schedule and the relative time horizon. Thirdly, it involves a modification in the concept of suitable rates of interest for advances of various types.

Bankable Schemes

Bankability of schemes is judged normally by the criteria that the projects financed should generate surplus to repay the loan with interest and that the surplus should accrue to an identifiable 'person' who is the borrower of the loan. This definition excludes vocations which do not generate incremental incomes or projects which benefit society in general. The definition of bankability needs to be modified if banks are to assist the weaker sections of the community under the 20-Point Programme. It is possible that while the incomes of the persons financed do not increase, the surplus available for repayment of the loan with interest might nevertheless increase under certain circumstances. For example, small farmers or agricultural labourers who were in the past borrowing from money-lenders would have been required to pay a substantial part of their wage or farm income by way of interest which was exorbitant. If bank credit is available at reasonable rates, if not at the concessionary rate of 4 per cent, even though the incomes might not increase, the surplus available with the borrowers might increase because of the substantial savings on interest cost considering the usurious rates of interest charged by money-lenders. Borrowing from banks rather than money-lenders will, thus, improve the repaying capacity of the borrower. Other similar examples can be given where despite the fact that incomes do not increase on account of

loans given by banks, schemes could still be bankable propositions because of the savings made possible by the loans. For example, the loan given to an industrial worker to buy a bicycle does not necessarily increase his wages. Nevertheless, because he is enabled to save the money which he would have spent on public transport, a surplus is generated which would enable the borrower to make the payment with interest. When the cost of transport is high, the loan which can be advanced is also high because the surplus generated will provide a larger amount of repayment. This is an example of the type of situations in respect of a variety of financing possibilities.

Consumption Loans

Consumption loans are often shunned both in banking theory and practice. In recent months, particularly after decision was taken that regional rural banks should finance expenditure on education and health, commercial banks are envisaging the possibilities of loans being given for these two items of expenditure. In fact, however, it is possible that consumption expenditure even on purchase of food and clothing could be made eligible for bank finance provided a scheme of repayment from out of the annual income of the borrower is devised. It is a well known fact that landless labourers, artisans, urban workers and even middle class people borrow money from money-lenders and repay the loan, if not in theory (that is, by way of principle being returned) at least in fact (by way of interest amounting to several times the original loans). The repayment by way of interest to the money-lenders could be construed as a surplus over the living expenses of the borrower over a sufficiently long period of time. The hitch arises in the period of time taken for calculating the repayment capacity. Agricultural labourers and artisans have a seasonality in their incomes. If both the slack and busy seasons are taken together, then income of the borrower over the whole cycle is enough for minimum maintenance and repayment of the loan. In the case of urban workers

and middle class people, special exigencies like ill health and purchase of consumer durables cause expenditure which they have the capacity to make good over a sufficiently long period of time from their earned incomes. Therefore, if the period of repayment fixed by the banks is sufficiently long, these people also can be financed by the banks without any risk.

The crucial issue of course is in regard to the organisation that has to be built up for collecting from the borrowers the surplus over the entire cycle—low and high incomes and low and high expenditures. Money-lenders use brute force to collect their dues. This being out of the question in the case of institutions, there must be some way of appropriating from the incomes earned by the borrower a portion towards the repayment of loans before the employer pays out the income itself. Arrangements need to be made for this kind of direct link of loan repayment with distribution of wages earned by borrowers of consumption loans.

Consumption loans are required by small craftsmen, retailers and people engaged in small trade and vocations of all description. The consumption loan of this class of production workers is in fact a form of working capital which is financed by the commercial banks in the case of large companies. Payment of wages, electricity charges, tax dues, etc., are calculated as falling within the working capital gap which is financed by bank credit. All these items represent inputs bought in advance of the generation of income from the sale of outputs. Maintenance of a craftsman's or retailer's family is also a part of the working capital because the asset in his case is his health and strength which will generate income over a subsequent period. Here again, bankability concept needs to be modified by taking a longer period of time and also a lower rate of interest. Lower rate of interest is a crucial element in the calculation of repaying capacity.

Rate of Interest

Traditionally, rate of interest is adjusted to risk of advances; the higher the risk, the higher is the rate of interest. This has meant charging of low rates to the large parties who are capable of bearing high rates and charging of high rates to the small parties who are capable of bearing only low rates. The differential interest rate scheme, which is in force during the last six years, was designed to get out of this conceptual fallacy. There is a sound basis in favour of charging lower rate to those whose surplus generating capacity is smaller. Commercial banks in this country mobilise a large proportion of total deposits in current accounts without paying any interest, and a large amount of savings deposits at interest of 5 per cent. The funds collected thus at no cost or low cost would have been lent out to parties with low surplus generating capacity if the total of lendable resources was in excess of what was required by large borrowers. The mere fact that the funds are scarce and the demand of the large borrowers exceeds the total availability of lendable funds with the bank, does not alter the situation that the banks have the capacity to lend at lower rate of interest. The maintenance cost of the banks and their required profit margin should be earned from those who can afford to pay a high rate of interest. The philosophical basis for a differential interest scheme based on surplus generating capacity of various occupations is that full employment of all labour and full use of all natural resources are necessary to banish poverty. A frank admission that growth is not enough and that application of all available capital resources in production activities with high rate of returns will not suit our political climate is a necessary precondition of banking for weaker sections.

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Credit Controls and Company Finances in India—1972-73 and 1973-74*

D. J. Kanvinde

The policy of monetary restraint pursued by the Reserve Bank of India, supported by administrative and fiscal measures taken by the Union and State Governments, have had a salutary effect on the economy of the country. Though overall impact of this on the price level since September 1974 has been visibly anti-inflationary, the process through which the credit restraints and higher cost of credit have rippled through the various sectors of the economy, as revealed by the shifts in their asset and liability structures, is interesting, because it indicates the dynamics through which these measures become effective in the economy. In this brief study, the impact that the credit control measures taken in 1972-73 had on the corporate finances in 1973-74, as revealed by their balance sheets, has been reviewed.

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* The views expressed in this article are personal views of the author and they do not necessarily represent those of the State Bank of India and its Associate Banks.

The credit squeeze of 1972-73, which was further intensified in 1973-74, was quite rigorous. There was hardly any weapon in the armoury of the Reserve Bank, which was not used. Here, measures taken up to May 1973 have been studied as these are likely to have had some impact on the balance sheets for 1973-74. The cost of credit was stepped up, not only by raising the Bank rate to 7 per cent per annum in May 1973, but also by stipulating the minimum lending rate, that too at a fairly high level of 10 per cent in May 1973. Commercial banks' credit creation capacity was severely restricted by raising the cash reserve requirement from 3 to 5 per cent. Their borrowing powers from the Reserve Bank of India also were severely curtailed by raising the net liquidity ratio from 33 to 39 per cent. All this was expected to restrict the availability of credit to the borrowers and to raise the cost of credit substantially. How far these measures succeeded in quantitative terms in restricting the credit expansion is independently known from figures of the overall increase in bank credit to industries; what effect these had on the finances of companies in various industries can, however, be seen through the study of 1973-74 balance sheets.

For this study, the data are taken from the Reserve Bank of India's study of finances of medium and large public limited companies, which appeared in the Reserve Bank of India Bulletin of September 1975. Since the data are available according to 'industry-groups', the analysis has also been on the same lines. This has, no doubt, some shortcomings because the generalisations drawn on the basis of the data pertaining to the whole industry may not hold good for individual units — more so, where there are vast diversities in the sizes of companies in the same industry.

Impact on Borrowings from Banks

The combined effect of restricted availability and high cost of credit would be to compel the companies to borrow less from the banks. In the context of a substantial

rise of about 22.7 per cent in the wholesale prices, which took place in 1973-74, this was not easy. Even then, some industry-groups have succeeded in reducing their borrowings in absolute terms compared to their drawings in 1972-73. Quite a few others have shown a fall in the ratio of bank borrowings to their total liabilities, i.e., their dependence on bank credit has relatively gone down. Some industries, however, have not succeeded in reducing their reliance on bank credit, despite the credit restraints and higher cost of bank finance. Table No. I below presents these trends more clearly. It has been arranged according to the descending order of the extent of the decline in the ratio of bank credit to total liabilities between 1972-73 and 1973-74, which shows the degree of the impact of the credit controls on various industries.

TABLE No. I

Variation in the Dependence on Bank Credit 1972-73—1973-74

Industry group	Ratio of bank credit to total liabilities (%)		Variation of (3) over (2)	Percentage variation in actual bank borrowings 1973-74/1972-73	Percentage variation in sales 1973-74/1972-73
	1972-73	1973-74			
1	2	3	4	5	6
Large Decline					
Matches	11.81	0.15	–11.66	–98.78	4.52
Printing and publishing	19.47	11.19	– 8.28	44.40	5.88
Substantial Decline					
Other non-ferrous metals (basic)	33.89	29.23	– 4.66	–10.34	5.49
Tobacco	21.52	17.02	– 4.50	–13.23	4.05
Rubber and rubber products	11.47	7.04	– 4.43	–36.19	0.05
Iron and steel	16.81	13.82	– 2.99	– 7.53	1.44
Cotton textiles	25.66	22.74	– 2.92	2.13	12.87
Foundries and engineering workshops	23.12	20.91	– 2·21	3.90	11.08
Electrical machinery, apparatus, appliances, etc.	26.45	24.40	– 2.05	0.95	9.31

(Contd.)

TABLE No. 1 (Contd.)

Industry group	Ratio of bank credit to total liabilities (%)		Variation of (3) over (2)	Percentage variation in actual bank borrowings 1973-74/1972-73	Percentage variation in sales 1973-74/1972-73
	1972-73	1973-74			
1	2	3	4	5	6
Significant Decline					
Edible, vegetable and hydrogenated oils	28.33	26.51	– 1.82	3.22	10.94
Mineral oils	4.88	3.39	– 1.49	–29.17	31.21
Machinery (other than transport and electrical)	22.15	20.72	– 1.43	5.73	16.00
Medicines and pharmaceutical preparations	16.88	15.54	– 1.34	1.16	10.90
Aluminium	11.69	10.62	– 1.07	– 8.79	–11.76
Electricity generation and supply	3.14	2.10	– 1.04	–27.68	21.98
Moderate Decline					
Breweries and distilleries	17.13	16.37	– 0.76	6.89	18.57
Basic industrial chemicals	11.11	10.43	– 0.68	– 0.56	8.15
Other chemical products	17.79	17.42	– 0.37	5.58	7.19
Silk and rayon textiles	7.84	7.63	– 0.21	12.68	13.50
Rubber plantations	7.41	7.20	– 0.21	1.54	8.92
Moderate Rise					
Tea plantations	15.71	16.22	0.51	11.25	6.18
Glass and glassware	19.39	20.10	0.71	23.49	16.75
Significant Rise					
Paper and paper products	13.84	14.90	1.06	17.42	10.70
Cement	10.92	12.29	1.37	17.10	–0.41
Motor vehicles	16.50	17.97	1.47	22.44	13.03
Transport equipment-Total	17.08	18.73	1.65	23.93	14.15
Substantial Rise					
Jute textiles	32.08	34.71	2.63	28.11	–7.83
Ferrous and non-ferrous metal products	18.87	23.17	4.30	43.88	11.33
Coffee plantations	2.88	7.82	4.94	203.33	3.73
Large Increase					
Sugar	23.02	28.17	5.15	50.32	–1.12
Woollen textiles	25.85	32.76	6.91	63.96	16.54
Total	17.96	17.75	–0.21	10.83	8.71

Bank borrowings have shown absolute declines in the case of 9 industry-groups as would be seen from column 5 of the Table. The absolute decline was very high in the case of the 'match industry' and very marked in the case

of 'rubber and rubber products', 'mineral oils', 'electricity generation and supply' and 'tobacco.' In terms of the total volume of bank credit, these are not very significant industries. While fall in the borrowings of the 'mineral oils' industry appears fortuitous and not so much the effect of credit restraint, that in the case of 'rubber and rubber products' and 'tobacco' was aided by better realisations.

Out of the 31 industry-groups studied here, ratio of bank credit to total liabilities declined between 1972-73 and 1973-74, in the case of as many as 20 and rose in the case of the remaining 11. The decline in the ratio of bank credit to total liabilities was very large (over 5 percentage points) in the case of two industry-groups, viz., 'matches' and 'printing and publishing', substantial (between 2 and 5 percentage points) in the case of 7, notable amongst these being 'other non-ferrous metals (basic)', 'tobacco' and 'rubber and rubber products', significant (between 1 and 2 percentage points) in the case of 6 industry-groups and moderate (below 1 percentage point) in the case of the remaining 5.

On the other hand, in the case of 11 industry-groups, the dependence on bank credit went up, as evidenced by the increase in the ratio of bank credit to total liabilities. Among these, 'woollen textiles', 'sugar', 'coffee plantations' and 'ferrous and non-ferrous metal products' showed a very substantial increase in dependence on bank credit.

Volume of Operations and Dependence on Bank Credit

If the decline in the dependence on bank credit is the result of a fall in the volume of operations, as evidenced by a fall in the total sales or production, it would not be wholly attributable to credit restraints. But, if the volume of operations or sales has increased and still the dependence on bank credit has declined, it would be more significant from the point of view of success of a restrictive

credit policy. Column 6 of Table No. 1 presents figures of percentage changes in the volume of sales. It would be observed from these that of the 31 industry-groups studied, sales declined in various measures in the case of only four. The decline in the case of only one of these (aluminium) was accompanied by a reduction in dependence on bank credit. In the case of the remaining three (viz., sugar, jute textiles and cement), there was actually an increase in the dependence on bank credit in spite of a decline in sales. However, it is significant that in as many as 19 industry-groups, there was a fall in the dependence on bank credit in spite of an increase in the volume of operations (sales).

Degree of Dependence on Bank Credit

Though Table No. 1 presents the industries according to the fall in the relative dependence on bank credit, the overall picture is somewhat bizarre, in that it does not easily indicate how credit controls affected industries, which had shown relatively larger dependence on bank borrowings in 1972-73. It is, no doubt, desirable in an inflationary situation that all industries reduce their dependence on bank credit, so that the overall volume of credit in the economy is checked. The efficacy of credit controls will be higher, if industries with over-dependence on bank credit curtail their bank borrowings, either absolutely or relatively. It would be more interesting from the point of view of studying the efficacy of the credit policy, if the impact of the credit squeeze on industries is studied in relation to their dependence on bank credit in the base year, here 1972-73. From Table No. 2 onwards, therefore, industry-groups have been arranged in the ascending order of their dependence on bank credit as evidenced by the ratio of bank borrowings to total liabilities in 1972-73.

Table No. 2 presents the data relating to the 31 industry-groups selected for this study according to the ascending order of the ratio of bank borrowings to total liabilities in 1972-73. The average level of the ratio for

TABLE No. 2

Bank Borrowings and Owned Funds

Industry group	Bank borrowings as percentage of total liabilities			Owned funds as percentage of total liabilities	
	1972–73	1973–74	Variation	1972-73	1973–74
1	2	3	4	5	6
Low Dependence on Bank Credit					
Coffee plantations	2.88	7.82	4.94	66.53	62.45
Electricity generation and supply	3.14	2.10	–1.04	45.88	45.22
Mineral oils	4.88	3.39	–1.49	59.04	60.76
Rubber plantations	7.41	7·20	–0.21	65.45	65.10
Silk and rayon textiles	7.84	7.63	–0.21	54.41	52.20
Moderately Low Dependence					
Cement	10.92	12.29	1.37	44.66	40.57
Basic industrial chemicals	11.11	10.43	–0.68	42.21	45.58
Rubber and rubber products	11.47	7.04	–4.43	42.07	43.06
Aluminium	11.69	10.62	–1.07	52.35	51.24
Matches	11.81	0.15	–11.66	61.70	56.62
Paper and paper products	13.84	14.90	1.06	44.77	43.97
Tea plantations	15.71	16.22	0.51	48.48	46.70
Motor vehicles	16.50	17.97	1.47	35.55	33.42
Iron and steel	16.81	13.82	–2.99	48.21	43.58
Medicines and pharmaceutical preparations	16.88	15.54	–1.34	48.26	48.32
Transport equipment - Total	17.08	18.73	1.65	34.69	31.86
Breweries and distilleries	17.13	16.37	–0.76	50.68	50.86
Other chemical products	17.79	17.42	–0.37	47.01	46.15
Moderately High Dependence					
Ferrous and non-ferrous metal products	18.87	23.17	4.30	41.30	38.16
Glass and glassware	19.39	20.10	0.71	44.65	44.61
Printing and publishing	19.47	11.19	–8.28	31.79	35.07
Tobacco	21.52	17.02	–4.50	51.40	49.19
Machinery (other than transport and electrical)	22.15	20.72	–1.43	30.01	28.69
Sugar	23.02	28.17	5.15	34.29	31.05
Foundries and engineering workshops	23.12	20.91	–2.21	36.47	35.02
High Dependence					
Cotton textiles	25.66	22.74	–2.92	28.36	30.72
Woollen textiles	25.85	32.76	6.91	38.89	33.50
Electrical machinery, apparatus, appliances, etc.	26.45	24.40	–2.05	33.25	33.71
Edible, vegetable and hydrogenated oils	28.33	26.51	–1.82	26.75	30.53
Jute textiles	32.08	34.71	2.63	28.10	20.98
Other non-ferrous metals (basic)	33.89	29.23	–4.66	38.54	41.27
TOTAL	17.96	17.75	–0.21	37.86	36.75

all the industries taken together was 17.96 per cent in 1972-73. The highest ratio worked out to 33.89 per cent in 1972-73, the range above the average being about 16. The mid-point above the average works out roughly to 25. Industry-groups with the ratio above 25 are classified as industries with 'high dependence' on bank credit, and those with the ratio between 17.96 per cent and 25.00 per cent as those with 'moderately high dependence.' Similarly, industry-groups having the ratio below 9.00 per cent are classified as 'low dependence' industries, whereas those with the ratio between 9.00 per cent and 17.96 per cent as industries with 'moderately low dependence' on bank credit. For all the industries taken together, the ratio of bank credit to total liabilities declined by 0.21 percentage point between 1972-73 and 1973-74.

Of the six industries with 'high dependence on bank credit', four showed decline in dependence in 1973-74, while two, viz., 'jute textiles' and 'woollen textiles' showed 'significant to large' increases in dependence. 'Other non-ferrous metals (basic)', 'cotton textiles' and 'electrical machinery, apparatus and appliances, etc.,' showed substantial declines in the ratio, while in the case of 'edible, vegetable and hydrogenated oils', the decline in the ratio was quite significant, thanks mainly to greater profitability and higher cash realisation.

Of the seven industries with 'moderately high dependence' on bank credit in 1972-73, four industries showed declines in the ratio, whereas three showed increases. The decline was large in the case of 'printing and publishing' (—8.28) and substantial in the case of 'tobacco' and 'foundries and engineering workshops'. The increase in the ratio was large in the case of 'sugar' and substantial in the case of 'ferrous and non-ferrous metal products.'

Thirteen industries had 'moderately low dependence' on bank credit in 1972-73. Of these, 8 industries showed declines in dependence in 1973-74, the decline being the largest (—11.66 percentage points) in the case of 'matches',

substantial in the case of two industries (rubber and rubber products and iron and steel), significant in the case of two and moderate in the case of three. Five industries showed increases, the maximum increase being in the case of 'transport equipment.'

Among the five industries which had shown 'very low dependence' on bank credit in 1972-73, four showed declines (two significant and two moderate) and one, viz., 'coffee plantations', showed very substantial increase in its dependence on bank credit.

Owned Funds

The dependence of industries on bank credit would fall if there is an inflow of owned funds into the industries or if need for holding current assets goes down, either because of a fall in current assets or because of an increase in current liabilities, say, by way of deposits from shareholders and the public or borrowings from other sources, etc. Of the 31 industries under study, 10 industries showed a rise in the ratio of owned funds to total liabilities. Of these, as many as four are in 'high dependence' group, one in 'moderately high dependence' group, four in 'moderately low dependence' and one in the 'low dependence' group. All the industries which have shown a rise in the ratio of owned funds to total liabilities have shown declines in their dependence on bank credit, the highest decline in dependence on bank credit being in the case of 'printing and publishing', followed by 'rubber and rubber products' and 'cotton textiles'. Significant increases were witnessed in the ratio of owned funds to total liabilities in the case of 'other non-ferrous metals (basic)', 'cotton textiles', 'edible, vegetable and hydrogenated oils', 'basic industrial chemicals', and to a certain extent, in 'mineral oils' industries. Improved profitability and consequential increase in the reserves and surplus have been the major factors responsible for the improvement in the ratio of owned funds to total liabilities in most of these industries.

Current Assets

In times of credit restriction, one of the ways of reducing dependence on bank credit is to reduce the volume of current assets. The ratio of current assets to the volume of operations (sales) would indicate whether the corporate sector has succeeded in reducing its current assets. Figures indicate that for all industries taken together, the ratio of current assets to sales has risen from 48.87 per cent to 51.46 per cent and among the 31 industries studied, this ratio has shown a decline in only 13 industries, as will be seen from Table No. 3. Of the 13 industries which showed a decline in the ratio of current assets to total assets, as many as 11 showed a decline in the dependence on bank borrowings. Among the 'high dependence' group, the ratio has declined only in the case of 'edible, vegetable and hydrogenated oils' and 'other non-ferrous metals (basic)' and their dependence on bank credit shows a significant fall in 1973-74. In the 'moderately high dependence' group, the ratio has declined in the case of three industries out of seven; of the three, viz., 'glass and glassware', 'printing and publishing' and 'machinery (other than transport and electrical)', the latter two show sizeable declines in the dependence on bank credit. In the 'moderately low dependence' category, six out of 13 showed decline; five, viz., 'basic industrial chemicals', 'matches', 'medicines and pharmaceutical preparations', 'other chemical products' and 'breweries and distilleries' also showed a decline in dependence on bank credit, the most substantial one being in 'matches.' Among 'low dependence industries', only two, viz., 'mineral oils' and 'rubber plantations' showed a decline in the ratio of current assets to sales. These also show moderate declines in the dependence on bank credit.

Bank Credit and Current Assets

Apart from its unauthorised rolling over for medium-term purposes, which is increasingly being discouraged, short-term bank credit is expected to be used for holding current assets, to be more precise, to bridge the gap partially between current assets and current

TABLE No. 3

Bank Borrowings and Current Assets

Industry group	Variation in the ratio of bank borrowings to total liabilities	Current assets as percentage of sales		Bank borrowings as percentage of current assets	
		1972-73	1973-74	1972-73	1973-74
1	2	3	4	5	6
Low Dependence on Bank Credit					
Coffee plantations	4.94	79.46	103.40	7.83	17.66
Electricity generation and supply	–1.04	38.04	38.87	14.43	8.37
Mineral oils	–1.49	99.31	82.19	12.26	8.00
Rubber plantations	–0.21	64.08	60.56	23.80	23.48
Silk and rayon textiles	–0.21	39.05	41.15	17.66	16.64
Moderately Low Dependence					
Cement	1.37	54.12	59.60	25.69	27.42
Basic industrial chemicals	–0.68	54.69	54.63	28.56	26.29
Rubber and rubber products	–4.43	40.15	42.59	20.35	12.24
Aluminium	–1.07	66.15	69.24	33.60	33.18
Matches	–11.66	34.75	31.36	21.13	0.27
Paper and paper products	1.06	48.83	48.61	37.82	40.30
Tea plantations	0.51	39.46	41.20	32.57	32.68
Motor vehicles	1.47	54.75	55.56	28.10	29.99
Iron and steel	–2.99	63.31	74.34	41.67	32.35
Medicines and pharmaceutical preparations	–1.34	48.68	48.11	26.45	24.41
Transport equipment - Total	1.65	55.36	56.10	28.91	30.97
Breweries and distilleries	–0.76	45.09	43.93	38.91	36.01
Other chemical products	–0.37	38.05	37.41	29.40	29.45
Moderately High Dependence					
Ferrous and non-ferrous metal products	4.30	50.89	55.95	31.33	36.82
Glass and glassware	0.71	57.91	54.57	37.67	42.28
Printing and publishing	–8.28	43.44	39.28	34.19	19.86
Tobacco	–4.50	51.29	51.36	28.76	23.96
Machinery (other than' transport and electrical)	–1.43	74.90	73.76	33.54	31.04
Sugar	5.15	44.66	56.82	40.75	48.69
Foundries and engineering workshops	–2.21	54.47	59.21	45.64	39.27
High Dependence					
Cotton textiles	–2.92	42.55	44.32	43.36	37.67
Woollen textiles,	6.91	55.88	65.13	39.23	47.34
Electrical machinery, apparatus, appliances, etc.	–2.05	61.71	61.80	38.90	35.87
Edible, vegetable and hydrogenated oils	–1.82	17.40	16.80	42.83	41.29
Jute textiles	2.63	34.08	45.90	50.56	52.17
Other non-ferrous metals (basic)	–4.66	51.44	51.37	51.13	43.52
Total	–0.21	48.87	51.46	33.77	32.69

liabilities. In times of credit restraint, when bank credit becomes difficult to come by or costlier, the ratio of bank credit to current assets should normally show a tendency to go down. This phenomenon was witnessed in 1973-74 in the corporate sector in India.

Of the 31 industry-groups studied, as many as 19 groups showed declines of varying magnitudes in the ratio of bank credit to current assets. For all industry-groups taken together, the ratio declined from 33.77 per cent to 32.69 per cent.

In the 'high dependence' group, four out of the 6 industry-groups witnessed a decline in this ratio, the largest declines being in the case of 'other non-ferrous metals (basic)' and 'cotton textiles'. In the 'moderately high dependence' group, four out of seven industry-groups showed declines in the ratio. Noticeable declines were in the case of 'printing and publishing', 'foundries and engineering workshops' and 'tobacco'. In the 'moderately low dependence' group, seven out of thirteen industry-groups showed a decline in the ratio, the largest decline being in the case of 'matches', followed by 'iron and steel' and 'rubber and rubber products'. In the 'low dependence' group also, four out of five industry groups, showed a decline in the ratio, the most significant decline being in 'electricity generation and supply'.

Inventory and Volume of Operations

When the dependence on bank credit is to be reduced, companies would be expected to try to reduce the size of inventories—both of finished goods and raw materials—in relation to their volume of operations or sales. The ratio of inventories to sales could be considered to be an indicator of the efforts made by the company to reduce inventories. The figures presented in Table No. 4, however, indicate that 20 out of 31 industry-groups showed an increase in this ratio and for all the companies taken together, the ratio of inventories to sales actually increased from

TABLE No. 4

Bank Borrowings, Inventory and Sales

Industry group	Variation in ratio of bank borrowings to total borrowings	Inventories as percentage of sales		Raw material inventory as so many days' consumption		Finished products inventory as so many days' production	
		1972–73	1973–74	1972–73	1973–74	1972–73	1973–74
1	2	3	4	5	6	7	8
Low Dependence on Bank Credit							
Coffee plantations	4.94	33.4	58.2	—	—	70	96
Electricity generation and supply	–1.04	12.9	12.4	4	2	—	—
Mineral oils	–1.49	59.7	41.7	—	—	—	—
Rubber plantations	–0.21	22.0	25.3	—	—	65	69
Silk and rayon textiles	–0.21	24.8	25.9	54	64	30	28
Moderately Low Dependence							
Cement	1.37	34.9	38.0	53	50	11	11
Basic industrial chemicals	–0.68	29.1	30.2	74	71	28	29
Rubber and rubber products	–4.43	26.5	26.3	89	85	20	21
Aluminium	–1.07	40.0	41.8	186	129	21	13
Matches	–11.66	22.6	14.3	86	46	13	7
Paper and paper products	1.06	32.8	32.9	82	72	14	15
Tea plantations	0.51	29.1	29.9	5	6	83	83
Motor vehicles	1.47	40.9	42.2	122	122	24	26
Iron and steel	–2.99	39.0	48.9	47	47	46	69
Medicines and pharmaceutical preparations	–1.34	30.0	28.5	88	84	40	38
Transport equipment - Total	1.65	41.0	42.3	121	119	24	25
Breweries and distilleries	–0.76	29.0	27.7	20	34	41	40
Other chemical products	–0.37	24.9	24.2	66	68	27	23
Moderately High Dependence							
Ferrous and non-ferrous metal products	4.30	32.1	35.2	84	92	26	31
Glass and glassware	0.71	35.7	33.8	64	60	43	37
Printing and publishing	–8.28	15.1	13.2	80	58	11	11
Tobacco	–4.50	42.8	43.7	161	152	32	39
Machinery (other than transport and electrical)	–1.43	45.7	45.1	120	122	32	27
Sugar	5.15	34.5	44.9	13	10	99	104
Foundries and engineering workshops	–2.21	37.3	41.5	77	94	32	34
High Dependence							
Cotton textiles	–2.92	30.5	32.5	72	86	35	33
Woollen textiles	6.91	34.2	44.7	64	69	44	57
Electrical machinery, apparatus, appliances, etc.	–2.05	34.2	34.5	88	92	39	37
Edible, vegetable and hydrogenated oils	–1.82	13.8	12.4	24	20	16	17
Jute textiles	2.63	25.6	35.8	67	106	34	44
Other non-ferrous metals (basic)	–4.66	36.3	36.7	70	92	46	34
Total	–0.21	30.9	32.8	68	71	33	34

30.9 per cent to 32.8 per cent in 1973-74. In fact, contrary to normal expectations, in the 'high dependence' group, only one among five industry-groups (viz., edible, vegetable and hydrogenated oils) showed a decline in the ratio of inventories to current assets. This industry also reduced its dependence on bank credit quite significantly. However, of the remaining, industries which also showed a reduced dependence on bank credit actually showed an increase in the ratio of inventories to sales. In the 'moderately high dependence' group, three out of seven, viz., 'glass and glassware', 'machinery (other than transport and electrical)' and 'printing and publishing' industry-groups showed declines in the ratio of inventories to sales. Of these, 'glass and glassware' showed an increase in the dependence on bank credit, while the latter two showed a decline in such dependence. Of the remaining four industry-groups which showed an increase in the ratio of inventories to sales, two reduced their dependence on bank credit, whereas two showed a substantial increase. In the 'moderately low dependence' group, of the 13 industry-groups, as many as eight showed increases in the ratio of inventories to sales. Of these, three showed a decline in the dependence on bank credit. Of the remaining five, which showed a decline in the ratio of inventories to sales, all five showed reduced dependence on bank credit. In the 'low dependence group', of the five industry groups, as many as three showed a rise in the ratio of inventories to sales and two of these three have shown a decline in the dependence on bank credit.

The picture, as presented by the behaviour of this ratio, is rather disappointing from the point of view of the monetary policy. Industries with high dependence on bank credit, which needed better inventory management, have actually shown an increase in the ratio of inventory to sales. Industries with relatively low dependence on bank credit also showed a similar trend, but it is less marked.

(a) **Raw Materials Inventory :** For all industries taken together, inventory of raw materials represented 68 days' consumption in 1972-73, but in 1973-74, there was actually a rise to 71 days. In the 'high dependence' group except in the case of the 'edible, vegetable and hydrogenated oils' industry, where it showed a decline from 24 days to 20 days, all the remaining industry-groups showed a rise, the most noticeable being in 'jute textiles', 'other non-ferrous metals (basic)' and 'cotton textiles'. Except 'jute textiles', however, these industries reduced their dependence on bank credit. In the 'moderately high dependence' group, four out of seven industry-groups showed decline in the inventory of raw materials. Of these, only two industry-groups showed decline in dependence on bank credit. In the 'moderately low dependence' group, however, out of 13, as many as eight industry-groups showed a decline in raw materials inventory, whereas for two more industry-groups, the inventory holding of raw materials, as represented by the number of days' consumption, was constant in 1972-73 as well as 1973-74. In the 'low dependence' group, figures are available in respect of only two out of the five industry-groups and of these, one has shown an increase in raw material holding, though a decline in dependence on bank credit.

Here also, industries with relatively high dependence on bank credit have not reduced raw materials holdings as much as those with relatively low dependence.

(b) **Finished Products Inventory :** Credit restraints are expected to put pressure on the companies to reduce their inventories of finished products or in other words to dehoard. However, if only the cost of credit goes up and availability is not restricted, the borrowers would compare the increase in the cost of credit with the expected rate of inflation and if the latter is higher, they would still keep on borrowing at higher interest rates. In such situations, neither inventories would go down nor bank

borrowing. If the pressure on the liquidity is strong, the industry may be forced to dispose off stocks by wooing the consumer through price reduction, discounts, etc., or else to cut down its production. However, in an inflationary situation, with the fear of a further price rise in the mind, the normal consumer is more inclined to buy immediately rather than postpone his purchases, unless he hopes that the prices have reached a peak and are likely to fall rather than rise further. Normally, dehoarding of finished goods is less painful in inflationary conditions than in recession, though it does result in cutting the notional future profits. Of course, it is possible that even in times of general price rise, some industries may be facing problems of demand and consumer resistance.

Out of the 31 industry-groups studied, 11 have shown reduction in the ratio of inventory-holding of finished goods as expressed in so many days' production. Of these, as many as 10 showed a decline in their dependence on bank credit also, while only four of these showed a concurrent decline in the inventory of raw materials. Whether the reduction in the finished goods was motivated by a desire to reduce the dependence on bank credit or whether the fall in the dependence on bank credit was the result of the reduction in inventory of finished goods is not clear. The latter would depend partly on the size of the finished products inventory and also the sales performance. However, considering the fact that 10 out of 11 industries show sizeable increases in sales, the latter possibility seems to be stronger, though what 'motivated' increased sales would again remain a moot question.

Sundry Debtors and Current Assets

One of the effects of credit restraints normally is to induce the companies to intensify their efforts to collect their trade receivables and to postpone payment of their trade dues. Both these phenomena were witnessed in 1973-74. The ratio of sundry debtors to current assets

showed a decline for all companies taken together from 24.83 per cent to 23.21 per cent as would be seen from Table No. 5. This tendency was witnessed in most industry-groups and as many as 22 out of 31 showed a decline in this ratio. In the 'high dependence group', 5 out of 6 industry-groups showed a decline in this ratio, barring 'edible, vegetable and hydrogenated oils', which had, in fact, showed a decline in the dependence on bank credit. Of the five, three also showed a fall in the dependence on bank credit. In the 'moderately high dependence' group, out of the seven industry-groups, all except one (viz., tobacco) showed a decline in the ratio of sundry debtors to current assets. In the 'relatively low dependence' group, 9 out of 13 industry-groups showed a decline in this ratio, while in the 'low dependence' group, two out of five industry-groups showed a decline.

Sundry Debtors and Sales

The same trend is witnessed, though not equally sharply, if we consider the ratio of sundry debtors to sales as expressed in terms of 'so many days' sales'. Out of the 31 industry-groups, 17 showed a decline, while in the case of two, the ratio was constant. In the 'high dependence' group, four out of six industry-groups showed declines, three of these also showed a decline in the dependence on bank credit. In the 'moderately high dependence' group, four out of seven industry-groups showed declines, three of which also showed reduced dependence on bank credit. In the 'relatively low dependence' group, out of the 13 industry-groups, seven showed decline in the ratio of sundry debtors to sales, while in the case of one, the ratio was constant. Five of these eight showed reduced dependence on bank borrowings.

In short, the credit squeeze seems to have set into motion a tendency to reduce the sundry debtors as witnessed by a fall in the ratio of sundry debtors to sales, whether or not, the industries finally succeeded in reducing their dependence on bank credit. This aspect of improved

TABLE No. 5

Sundry Debtors : Current Assets and Sales

Industry group	Variation in ratio of bank borrowings to total borrowings	Sundry debtors to current assets %		Sundry debtors as so many days' sales	
		1972-73	1973-74	1972-73	1973-74
Low Dependence on Bank Credit					
Coffee plantations	4.94	10.70	7.93	31	30
Electricity generation and supply	–1.04	43.30	47.97	60	68
Mineral oils	–1.49	23.11	40.98	84	123
Rubber plantations	–0.21	17.58	13.87	41	31
Silk and rayon textiles	–0.21	9.61	10.40	14	16
Moderately Low Dependence					
Cement	1.37	22.30	20.77	44	45
Basic industrial chemicals	–0.68	26.36	21.92	53	44
Rubber and rubber products	–4.43	24.01	18.90	35	29
Aluminium	–1.07	11.62	13.72	28	35
Matches	–11.66	9.79	8.06	12	9
Paper and paper products	1.06	17.60	15.79	31	28
Tea plantations	0.51	7.61	8.13	11	12
Motor vehicles	1.47	18.73	17.87	37	36
Iron and steel	–2.99	21.54	19.78	50	54
Medicines and pharmaceutical preparations	–1.34	26.98	28.50	48	50
Transport equipment - Total	1.65	19.45	18.48	39	38
Breweries and distilleries	–0.76	12.19	12.45	20	20
Other chemical products	–0.37	26.01	23.55	36	32
Moderately High Dependence					
Ferrous and non-ferrous metal products	4.30	27.89	27.05	52	55
Glass and glassware	0.71	28.43	28.31	60	56
Printing and publishing	–8.28	55.87	55.07	89	79
Tobacco	–4.50	9.92	11.42	19	21
Machinery (other than transport and electrical)	–1.43	32.05	30.40	88	82
Sugar	5.15	8.68	6.71	14	14
Foundries and engineering workshops	–2.21	23.93	21.05	48	46
High Dependence					
Cotton textiles	–2.92	20.95	18.43	33	30
Woollen textiles	6.91	26.38	20.67	54	49
Electrical machinery, apparatus, appliances, etc.	–2.05	40.18	39.47	91	89
Edible, vegetable and hydrogenated oils	–1.82	15.95	18.15	10	11
Jute textiles	2.63	18.84	17.84	23	30
Other non-ferrous metals (basic)	–4.66	25.19	22.68	47	43
Total	–0.21	24.83	23.21	44	44

financial management is generally to be welcomed, though some times it does put pressure on the financially weaker buyers particularly in the small sector. Another interesting feature is that many industries have not bothered to reduce their inventories, but have nevertheless tried to put pressure for recovery of their receivables.

Sundry Creditors and Total Liabilities

Postponement of payment of sundry creditors is one of the methods to improve the liquidity position, when bank credit becomes tight. The study shows that this was resorted to by the corporate sector in 1973-74 and the ratio of sundry creditors to total liabilities moved up from 15.02 per cent to 15.88 per cent for all companies taken together, as would be seen from Table No. 6. Among individual industry-groups also, as many as 27 out of 31 showed increases in the sundry creditors to total liabilities. In the 'high dependence' group, all industry-groups showed increases in the ratio of sundry creditors to total liabilities, the most marked being in the case of 'jute textiles'. In the 'moderately high dependence' group, with the exception of one (viz., sugar) all industry-groups showed increases in the ratio, the sharpest rise being in the case of 'printing and publishing'. In the 'moderately low dependence' group also, all except one (viz. paper and paper products) showed increases in the ratio. In the 'low dependence' group, three out of five industry-groups showed increases in the ratio. In the case of 'coffee plantations' and to a certain extent 'electricity generation and supply', the rise in the ratio was quite marked.

Sundry Creditors and Raw Materials Consumption

The ratio of sundry creditors to raw material consumption expressed as so many days' consumption also rose from 89 to 95 in the case of all companies taken together. Among industry-groups, 20 out of 31 showed a rise in this ratio. In the 'high dependence' group, all but one industry-group showed increases in the ratio, the sharpest being in

TABLE No. 6

Sundry Creditors : Total Liabilities and Raw Material Consumption

Industry group	Variation in ratio of bank borrowings to total liabilities	Sundry creditors to total liabilities %		Sundry creditors as so many days' of raw materials, etc., consumed	
		1972-73	1973-74	1972-73	1973-74
1	2	3	4	5	6
Low Dependence on Bank Credit					
Coffee plantations	4.94	5.94	9.54	—	—
Electricity generation and supply	–1.04	8.50	11.43	132	137
Mineral oils	–1.49	15.12	11.41	324	224
Rubber plantations	–0.21	6.61	6.11	331	262
Silk and rayon textiles	–0.21	12.59	13.14	78	87
Moderately Low Dependence					
Cement	1.37	13.21	15.90	166	168
Basic industrial chemicals	–0.68	10.43	10.73	125	119
Rubber and rubber products	–4.43	17.12	19.98	69	83
Aluminium	–1.07	5.70	6.20	106	123
Matches	–11.66	19.44	23.17	81	88
Paper and paper products	1.06	12.13	11.86	141	136
Tea plantations	0.51	14.06	16.66	87	105
Motor vehicles	1.47	17.37	17.66	93	93
Iron and steel	–2.99	17.57	18.44	276	312
Medicines and pharmaceutical preparations	–1.34	14.28	14.43	85	85
Transport equipment-Total	1.65	17.66	17.81	96	94
Breweries and distilleries	–0.76	15.52	16.62	131	126
Other chemical products	–0.37	15.74	16.22	53	56
Moderately High Dependence					
Ferrous and non-ferrous metal products	4.30	12.60	13.48	62	70
Glass and glassware	0.71	10.59	11.88	121	149
Printing and publishing	–8.28	16.07	19.28	124	130
Tobacco	–4.50	7.77	10.93	28	41
Machinery (other than transport and electrical)	–1.43	18.05	18.60	132	130
Sugar	5.15	17.25	17.11	94	77
Foundries and engineering workshops	–2.21	11.24	12.36	73	87
High Dependence					
Cotton textiles	–2.92	15.92	16.32	72	79
Woollen textiles	6.91	14.80	15.26	76	76
Electrical machinery, apparatus, appliances, etc.	–2.05	17.02	18.47	93	101
Edible, vegetable and hydrogenated oils	–1.82	17.20	17.80	18	19
Jute textiles	2.63	24.22	30.63	81	130
Other non-ferrous metals (basic)	–4.66	9.12	11.45	38	49
Total	–0.21	15.02	15.88	89	95

the case of 'jute textiles' from 81 days' consumption to 130 days'. In the 'moderately high dependence' group also, five out of seven industry-groups showed increases with the exception of 'sugar' and 'machinery (other than transport and electrical)'. In the 'moderately low dependence' group, seven out of 13 industry-groups showed rise, whereas in the 'low dependence' group, only two out of five showed increases in the ratio.

One significant conclusion emerges from the foregoing analysis of sundry creditors and it is that during 1973-74, the corporate sector tried to squeeze out more credit from its creditors. The higher the dependence on bank credit, the more noticeable seems to be the tendency, possibly because there was greater incentive for them to do so. Some of the 'creditors' would, no doubt, be in the corporate sector itself. Without an input-output study of these companies, the extent of the debtor-creditor relationship within the corporate sector would not be known, though off-hand it could be said that machinery, minerals and intermediate goods manufacturers would fall in this matrix. Even so, it appears that suppliers outside the corporate sector have had to give more trade credit. Credit squeeze thus appears to have set in motion forces which tended to extract extra credit facilities by way of 'sundry creditors' and odds are that it is the non-corporate sector which had to bear the brunt. If so, it is a moot point from where this sector got the liquidity to be able to give more credit.

Interest Cost

Credit restraints of 1972-73 were a multi-pronged drive, which also raised sharply the cost of borrowing funds, not only by raising the Bank rate but also by prescribing the minimum lending rate. The weighted average of lending rates of commercial banks rose from 9.4 per cent at the end of 1972 to 10.4 per ent at the end of 1973.

Table No. 7 presents the data regarding interest cost to the corporate sector by arranging industries in the ascending order of the ratio of interest paid to total sales in 1972-73. The table also presents variations which took place in interest paid, sales and the ratio of bank borrowings to total liabilities in 1973-74. In 21 out of 31 industry-groups, the total interest paid increased in absolute terms. In 13 of these, however, the ratio of bank borrowings to total liabilities declined and in the case of five, the bank borrowings declined absolutely. If interest paid had increased in spite of the decline in bank borrowings either absolutely or relatively, it indicates that (a) increase in the rate of interest was more than the rate of decline in the borrowings or (b) these industries have, perhaps, increased their borrowings from other sources even at higher rates of interest, either because the availability of bank credit was restricted or because they preferred to borrow less from commercial banks.

Though, in absolute terms, interest cost increased in 21 out of 31 industry groups, the burden of the interest cost has not correspondingly increased relatively, as judged by the ratio of interest paid to sales, which for all companies taken together, in fact, declined from 3.1 to 3.0. The ratio of interest paid to total sales declined in the case of 15 out of 31 industries and remained constant in the case of seven. Thus, the ratio of interest paid to sales did not rise in the case of 22 out of 31 industries. Of these, dependence on bank borrowings declined in the case of 17. It is difficult to say whether the decline in bank borrowings was inspired by high cost of credit from banks or non-availability of credit due to credit restraints, but if some of the companies have resorted to borrowings from other sources even at higher rates of interest, it would mean that raising of the cost of credit, perhaps, did not have much deterrent effect on borrowings by these companies. In fact, the fall in the ratio of interest paid to sales in many instances was due to a faster increase in sales than that in the interest paid. In many

TABLE No. 7

Interest Paid, Bank Credit and Sales

Industry group	Ratio of interest to sales (%)		Variation in ratio of bank borrowings to total liabilities 1973–74/ 1972–73	Percentage variation in interest paid 1973–74/ 1972–73	Percentage variation in sales 1973–74/ 1972–73
	1972–73	1973–74			
1	2	3	4	5	6
Low Interest Cost					
Matches	0.8	0.6	–11.66	–11.76	4.52
Edible, vegetable and hydrogenated oils	1.1	1.1	–1.82	15.44	10.94
Coffee plantations	1.2	1.6	4.94	33.33	3.73
Other chemical products	1.6	1.6	–0.37	3.19	7.19
Tea plantations	1.8	2.0	0.51	18.95	6.18
Medicines and pharmaceutical preparations	1.9	1.9	–1.34	14.65	10.90
Moderately Low Interest Cost					
Tobacco	2.0	2.0	–4.50	6.65	4.05
Jute textiles	2.0	2.6	2.63	19.46	–7.83
Silk and rayon textiles	2.0	1.7	–0.21	—	13.50
Rubber plantations	2.2	2.1	–0.21	11.11	8.92
Mineral oils	2.5	1.6	–1.49	–17.65	31.21
Rubber and rubber products	2.5	2.4	–4.43	–7.00	0.05
Printing and publishing	2.8	2.4	–8.28	–11.11	5.88
Moderately High Interest Cost					
Ferrous and non-ferrous metal products	3.0	3.2	4.30	19.47	11.33
Breweries and distilleries	3.2	2.9	–0.76	5.75	18.57
Iron and steel	3.3	4.1	–2.99	25.63	1.44
Electrical machinery, apparatus, appliances, etc.	3.3	3.3	–2.05	7.66	9.31
Woollen textiles	3.4	4.0	6.91	35.60	16.54
Glass and glassware	3.5	3.5	0.71	15.45	16.75
Sugar	3.6	3.3	5.15	–8.87	–1.12
Cotton textiles	3.7	3.3	–2.92	0.93	12.87
Transport equipment-Total	3.8	3.3	1.65	–0.60	14.15
Motor vehicles	3.8	3.3	1.47	–2.10	13.03
Cement	3.9	3.9	1.37	1.33	–0.41

(Contd.)

TABLE No. 7 (Contd.)

Industry group	Ratio of interest to sales (%)		Variation in ratio of bank borrowings to total liabilities 1973–74/ 1972–73	Percentage variation in interest paid 1973–74/ 1972–73	Percentage variation in sales 1973–74/ 1972–73
	1972–73	1973–74			
1	2	3	4	5	6
High Interest Cost					
Other non-ferrous metals (basic)	4.0	3.9	–4.66	2.76	5.49
Machinery (other than transport and electrical)	4.1	3.5	–1.43	–0.19	16.00
Paper and paper products	4.1	4.2	1.06	14.00	10.70
Foundries and engineering workshops	4.4	4.6	–2.21	16.83	11.08
Aluminium	4.5	5.2	–1.07	0.47	–11.76
Basic industrial chemicals	4.7	4.2	–0.68	–3.78	8.15
Electricity generation and supply	4.7	4.2	–1.04	8.02	21.98
Total	3.1	3.0	–0.21	5.33	8.71

cases, the increase in the value of sales was largely due to the price rise rather than due to a larger volume of sales in physical terms. The rise in interest cost in their case was, perhaps, not so substantial in comparison with the rate of inflation. Industries which enjoyed the sellers' market, in particular, improved their internal resources position and might have reduced their dependence on bank borrowings. Apparently, increased cost of credit did not have an immediate impact on quite a few industry-groups because of the strong inflationary situation. However, the increased interest cost hurts the marginal profitability more when the rate of inflation declines and generates a strong and sustained pressure to reduce high cost borrowings.

Summing up

The main conclusions of the study can be summed up as under :

(i) The above study reveals that between 1972-73 and 1973-74, 9 industry-groups of the 31 studied showed absolute declines in dependence on bank credit and 20 showed relative declines as judged by the ratio of bank borrowings to total liabilities. Nineteen industry-groups showed a reduced dependence on bank credit in spite of the increase in the volume of operations or sales. Ten showed a rise of owned funds and also showed a decline in the dependence on bank credit.

(ii) Credit-restraints did not have any substantial effect on the inventory-holding (particularly of raw materials) of the companies; only 11 out of 31 groups showed a decline in the ratio of inventories to sales; the overall ratio of inventories to sales also rose. Companies with high dependence on bank credit actually increased their inventory holdings instead of reducing.

(iii) Trade credit has been tightened by the corporate sector, sundry debtors being reduced and sundry creditors extended. What burden of this has fallen on the non-corporate sector is not known, though it is likely to be substantial; if this is so, how this sector got access to increased liquidity is a moot point.

(iv) In 21 out of 31 industry-groups, the total interest paid increased in absolute terms. In 13 of these, the ratio of bank borrowings to total liabilities declined and in the case of five, the bank borrowings declined absolutely. This indicates that (a) increase in the rate of interest was more than the rate of decline in borrowings or (b) these industries have, perhaps, increased their borrowings from other sources even at higher rates of interest. Further, though

in absolute terms, interest costs increased in 21 out of 31 industry-groups, the burden of interest relatively went down in 15 and remained constant in seven industries. The fall in the ratio was due to faster increase in sales—in value terms—because of high rate of inflation.

Shri D. J. Kanvinde is Additional Chief Officer in the Economic and Statistical Research Department at the Bank's Central Office.)

Current Topics

Bio-gas Plants: Position and Prospects

Gobar gas or bio-gas plants have become quite popular in the country in recent years. The credit for popularising bio-gas plants on a large scale in the country goes to the Khadi and Village Industries Commission. The Commission granted subsidies and loans for constructing gobar gas plants and a farmer could get a plant installed without large investment. Besides, the Union Ministry of Agriculture and Irrigation has been giving 25 per cent subsidy on the total cost of investment. Due to these incentives, the total number of the plants in the country rose from 1,621 in 1968-69 to 6,158 in 1973-74. During the period, while the quantity of gas produced rose from 41.14 lakh cubic metres (valued at Rs. 9.5 lakhs) to 114.40 lakh cubic metres (Rs. 30.8 lakhs), the value of manure produced increased from Rs. 5.9 lakhs to Rs. 26.3 lakhs.

The growing popularity of the bio-gas plants is evident from the rapid increase in the number of such plants set up in the country. The number of bio-gas plants rose from 6,158 at the end of March 1974 to nearly 15,000 by the end of March 1975 and further to 29,285 at the end-March 1976. More farmers are expected to set up their own plants as they ensure push-button availability of cooking fuel. The Government has decided to continue the subsidy for setting up new plants during the remaining years of the Fifth Plan. But the rate of subsidy will come down from 25 per cent to 20 per cent in 1976-77, and to 15 per cent and 10 per cent during 1977-78 and 1978-79 respectively.

Technology

Bio-gas plants operate on the principle that the anaerobic fermentation (i.e., fermentation in the absence of air) of cellulose containing organic materials leads to the production of a combustible gas called methane. The main emphasis in India has been on the use of 'gobar' (cow-dung) as the fermentable material. The bio-gas plant can digest not only cow-dung but also organic wastes such as human excreta, animal excreta, poultry droppings, agricultural waste such as straw, plant leaves, algae, bagasse, groundnut shell, paddy husk, industrial wastes containing cellulosic organic matter, wastes from tanneries, food industries, paper mills, etc.

Plant and Products

A bio-gas plant has two main parts. One is the digester (or fermentation tank) with an inlet into which the fermentable mixture is introduced in the form of liquid slurry and the other is a gas-holder to collect the gas (50-80 per cent methane and the balance mostly carbon dioxide). While the gas-holder is provided with a gas outlet, the digester is provided with an overflow pipe to lead out the sludge (the residue). The residue that is left after gasification makes a good organic manure. The manure contains about 2 per cent nitrogen as against only 0.5 per cent in the farmyard manure. Moreover, on account of the rich humus content in this manure, physical characteristics of the soil can be improved in respect of the binding power and water retention capacity. The manure easily mixes with soil and thus prevents breeding of flies and mosquitoes. It is free from offensive odours which are usually associated with compost manures.

The heat value of one cubic metre of bio-gas is equivalent to 1.1 litres of alcohol or 0.8 litre of gasoline or 0.6 litre of crude oil or 1.5 cubic metres of L.P. gas or 1.4 kgs. of charcoal or 2.2 kwh. of electric energy. The gas burns with hot blue flame (800°F to 1000°F) without odour or soot and can be used for cooking, lighting and as a fuel for energising pumpsets.

Bio-gas Plants: Economic Viability

The following findings of the Khadi and Village Industries Commission amply bring out the economic viability of a 3-cubic metre per day capacity bio-gas plant.

		Rs. P.
(a)	**Cost of Installation**	
	(i) Gas container and frame	701.00
	(ii) Piping and stores	260.00
	(iii) Construction of fermentation tank (digester)	1,114.00
	(iv) Total investment	2,075.00
(b)	**Recurring Expenditure per year**	
	(i) Interest on investment @ 11%	228.25
	(ii) Depreciation @ 10% on the gas container and frame	70.10
	(iii) Depreciation on piping and stores @ 5%	13.00
	(iv) Depreciation on fermentation tank (digester) @ 3%	33.42
	(v) Total annual expenditure	344.77
(c)	**Against the Annual Expenditure the Income will be**	
	(i) Cost of gas generated (3-cubic metre gas is generated every day and its cost for one year @ Rs. 10 per 29 cubic metres comes to $\frac{3 \times 365 \times 10}{29}$)	377.58
	(ii) Cost of manure produced (approximate value of 16 tonnes of manure @ Rs. 30 per tonne)	480.00
	(iii) Total Annual Income	857.58
(d)	**Excess of Income over Expenditure (c-b)**	
	Rs. 857.58 — Rs. 344.77 =	512.81

Outlook for Future

The energy crisis is only one dimension of oil crisis. The other dimension relates to fertilisers. As a result of the steep escalation in the price of petroleum feedstocks, prospective net benefits from the installation of bio-gas plants have increased substantially in recent years. The United Nations Environmental Programme (UNEP) has also whole-heartedly endorsed the superiority of bio-gas plants over chemical fertiliser plants from the view point of environmental pollution. It is well known that chemical fertiliser plants are perhaps the worse offenders where pollution of air and river and sea water is concerned. By contrast, a bio-gas plant actually cleans up the environment by promoting systematic collection of dung and faeces and greatly reducing the incidence of gastrointestinal diseases.

It has been estimated that the fermentation of 75 per cent of the dung collected from the country's 226 million cattle population (1961 census) would yield about 196 million MWH. (mega watt hour) of energy per year. This is equivalent to about 24 million litres of kerosene and at the same time 236 million tonnes of manure will be available. The nitrogen content of this manure will be around 3.5 million tonnes, which is more than nitrogen fertiliser capacity established in the country.

Based on a study made by the Institute of Science, Bangalore, UNEP has pointed out that 26,150 bio-gas plants will produce as much fertiliser as a single $140 million coal-based plant, but bio-gas plants will cost $14 million less to build and will generate 130 times as much employment. What is more, the added prosperity will be diffused over 26,000 villages instead of being concentrated in a single township and since the fertiliser will be consumed where it is produced, it will largely eliminate the need for packing, transport and storage.

At present, a serious limitation of bio-gas plants is that only a small minority of rural families owns the minimum number of cattle required to supply dung and other waste materials to sustain a plant of even the smallest size. Thus the direct

benefits of installing these plants more widely on a family unit basis will accrue only to the big farmers. Large plants will also help reduce the cost of producing gas and fertilisers. Installation of one large plant for one village is another alternative. In this case, however, further substantial costs will have to be incurred for distribution and metering if the gas were distributed by pipeline or alternatively for storage facilities. Hence, a programme to encourage the installation of smaller size plants for rural households appears to be justified. Research and development should be directed not only to improve the small scale process, but also to develop more effective methods of distribution and storage, which would enable village-scale plants to become competitive.

Legal Decisions

On Banking

Acknowledgment of Liability by Karta of Joint Hindu Family—Validity of

Nanchand Gangaram Shetji *(Appellant)*

vs.

Mallappa Mahalingappa Sadalge and Others *(Respondents)*

A.I.R. 1976 Supreme Court 835

Contributed by N. K. Randeria

A short question for consideration in this appeal was whether an acknowledgment of liability by karta of joint Hindu trading family after its severance would extend the period of limitation, particularly when no notice about the disruption of the family was given to outside creditors.

It was contended, relying on Section 45 of the Partnership Act, that acknowledgment by the karta of joint Hindu trading family would, in the absence of public notice to the traders in general or particular notice to the appellant, be binding on all the erstwhile members of the joint Hindu family.

Rejecting the contention, the Supreme Court observed that the legislature has, in its wisdom, excluded joint Hindu trading families from the operation of the Partnership Act.

Section 5 of the Partnership Act makes it clear that the Act governs only that relation of partnership which arose from contract and not from status such as one obtaining among the members of a joint Hindu trading family. The answer to the question would depend upon the interpretation of Section 21(3)(b) read with Section 19 of the Limitation Act, 1908 (Section 20(3)(b) read with Section 18 of the Limitation Act, 1963). According to the said Section, an acknowledgment or payment made by or by the duly authorised agent of the manager of the family for the time being shall be deemed to have been made on behalf of the whole family. The words "the manager of the family for the time being" unerringly indicate that at a time when the acknowledgment is made and signed, the person making and signing it must be the manager of a subsisting joint Hindu family. If the joint Hindu family was no longer in existence because of division or disruption of its joint status, an acknowledgment made by the erstwhile karta of such family cannot keep the debt alive and extend the limitation as against all the members of the family.

Observing that it is the duty of the creditor to ascertain, after due enquiry, whether the person making the acknowledgment holds his representative capacity as karta of the family, the Supreme Court enunciated the law thus : "The law does not cast any duty upon the members of the family who do not figure in the endorsement or writing admitting the debt to inform the creditor by a general notice about the disruption of the family. If the creditor fails to make an enquiry and satisfy himself about the capacity of the executant to represent the family at the time of making the acknowledgment, he does so at his own peril. Disruption of the joint family status, as already noticed, puts an end to the representative capacity of the karta and any acknowledgment of debt made by him after such disruption cannot save the creditors' claim from becoming time-barred against the other members."

In the result, the appeal was dismissed with costs.

(**Shri N. K. Randeria** is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I

SELECTED ASSETS AND LIABILITIES OF BANKS IN INDIA

(Rupees in crores)

	Position as on 30-7-1976	A Month Ago 25-6-1976	A Year Ago 25-7-1975
State Bank of India			
Aggregate Deposits:	3,647.6	3,545.7	2,965.1
Demand (Exclusive of inter-bank transactions)	1,477.9	1,421.9	1,293.9
Time (-do-)	2,169.7	2,123.8	1,671.2
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	2,694.8	2,659.1	1,947.3
Investments in Government Securities	912.2	851.1	835.8
Associate Banks			
Aggregate Deposits:	838.5	805.9	695.5
Demand (Exclusive of inter-bank transactions)	348.5	335.1	295.0
Time (-do-)	490.0	470.8	400.5
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	666.1	645.7	501.2
Investments in Government Securities	148.0	143.7	124.1
All Scheduled Commercial Banks			
Aggregate Deposits:	15,422.0	15,056.3	12,811.3
Demand (Exclusive of inter-bank transactions)	6,199.7	6,070.5	5,368.9
Time (-do-) ..	9,222.3	8,985.8	7,442.4
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	11,746.4	11,463.7	8,732.3
Investments in Government Securities	3,589.3	3,430.6	3,114.3

TABLE II

SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	March 1976		March 1975	
	State Bank of India	Associate Banks	State Bank of India	Associate Banks
No. of Offices	3,867	1,830	3,436	1,735
Advances				
to Agriculture:				
(i) Direct				
No. of Accounts	8,53,538	1,69,567	5,93,883	1,18,551
Outstandings	187	53	127	37
(ii) Indirect				
No. of Accounts	17,349	3,589	8,871	3,263
Outstandings	65	22	60	16
to Small Scale Industries:				
No. of units	86,016*	39,882	72,156	35,023
Outstandings	317*	85	293	78
to Small Business:				
No. of Accounts	1,58,488	50,370	1,09,727	32,695
Outstandings	58	15	43	11
under Differential Interest Rates Scheme:				
No. of Accounts	2,08,372	41,703*	1,14,573	28,942
Outstandings	9	2*	5	1
for Exports:				
Outstandings	227	45	183	25

* Provisional figures

TABLE III

SELECTED ECONOMIC INDICATORS

	Position as on 30-7-1976	A Month Ago 25-6-1976	A Year Ago 25-7-1975
	(Amounts in rupees crores)		
1. Money Supply with the Public...	13,514	13,602	12,090
(a) Currency with the public ...	7,118	7,295	6,514
(b) Deposit money with the public	6,396	6,307	5,576
	May 1976	April 1976	May 1975
2. Foreign Exchange Reserves			
(a) SDRs* ...	19.85	19.85	22.63
(b) Gold ...	182.53	182.53	182.53
(c) Foreign Exchange ...	1,595.06	1,335.38	584.23
3. Money Rates	(Per cent per annum)		
(a) Bank Rate ...	9	9	9
(b) State Bank of India Advance Rate ...	14	14	14
(c) State Bank of India Hundi Rate ...	14-16	14-16	14-16½
(d) Call Money Rate (Bombay) ...	8.3	9.5	12.2
(e) Bazar Bill Rate (Bombay) ...	21	21	21

*In crores of SDRs.

TABLE III

SELECTED ECONOMIC INDICATORS (Contd.)

	April 1976	March 1976	April 1975
4. Index Number of Industrial Production (1970=100)			
General Index	131.6	137.4	112.8
	Week ended 31-7-1976	Week ended 26-6-1976	Week ended 26-7-1975
5. Index Number of Wholesale Prices (1961-62=100)			
All Commodities	306.8	301.8	308.7
Food Articles ...	338.7	331.0	360.4
Liquor & Tobacco	327.2	323.1	315.5
Fuel, Power, Light and Lubricants	370.1	369.2	351.4
Industrial Raw Materials ..	301.4	296.8	277.9
Chemicals	293.1	295.0	325.9
Machinery and Transport Equipment ...	257.7	257.5	261.5
Manufactures ...	263.0	259.1	252.4
	April 1976	March 1976	April 1975
6. Consumer Price Index Number for Industrial Workers—All-India (1960=100) ...	289	286	323
7. Foreign Trade		(Rupees in crores)	
Total Imports ...	321.9	369.1	353.1
Total Exports (including re-exports) ...	323.8	463.9	243.7

ज्ञानं ज्ञेयं परिज्ञाता, त्रिविधा कर्मचोदना।

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New Role for Banks*

T. R. Varadachary

Banks in India, perhaps more than in any other country, are the main repositories of people's savings. Bringing the banks under the ownership of the Government, therefore, may be considered an essential step in the direction of the country's planned economic development. It is due to the Prime Minister's foresight and courage that this key decision was taken and banks have been set on the path to becoming instruments of national growth.

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* This is a revised version of an article contributed by Shri Varadachary to a brochure entitled "Dynamic Decade", published on behalf of the National Forum of Small and Medium Industrialists, New Delhi.

Objectives of Nationalisation

The objectives of nationalisation were clearly spelt out by the Prime Minister in her broadcast to the Nation on the 19th July 1969 and one can do no better than quote her, "Control over the commanding heights is necessary, particularly in a poor country where it is extremely difficult to mobilise adequate resources for development, and to reduce the inequalities between different groups or regions . . . An institution, such as the banking system which touches—and should touch—the lives of millions, has necessarily to be inspired by a larger social purpose and has to subserve national priorities and objectives . . . The purpose of expanding bank credit to priority areas which have hitherto been somewhat neglected as also (i) the removal of control by a few, (ii) provision of adequate credit for agriculture and small industry and exports, (iii) the giving of a professional bent to bank management, (iv) the encouragement of new classes of entrepreneurs and, (v) the provision of adequate training as well as reasonable terms of service for bank staff still remain and will call for continuous efforts over a long time. Nationalisation is necessary for the speedy achievement of these objectives. . . . ."

The Prime Minister thus assigned specific tasks to the nationalised banks in pursuance of the Government's policy of achieving maximum economic growth with social justice and national self-reliance. Under Indian conditions, there is no conflict between economic growth and social justice; in fact, the two goals are complementary. Modernisation and rise in productivity of agriculture, small scale and cottage industries and small business are essential for generating resources for further growth of the economy and also for advancing the cause of social justice. These sectors contribute a major part of the national income, produce essential raw materials and create demand for the products of large scale industry. Increases in output and employment in these sectors are capable of producing

a larger rise in national income and savings than would be possible only by the expansion of the large industrial sector. Nationalisation of banks and the role in the economic life of the country expected of them followed from this fundamental truth of the Indian economic situation.

Basic to the new concept of banking, therefore, was a change in the approach to lending from security-orientation to purpose-orientation of loans. To assess the need for credit according to the new approach, it was necessary that banks should build up expertise to evaluate projects financed and judge the repaying capacity of the borrower on the basis of cash accruals resulting from incremental production. Development of the skills was the major achievement of banks in the post-nationalisation period, which has resulted in the wider coverage and more rational regulation of credit. In other words, it converted commercial banks from being money-lenders into development bankers.

An indication of the break from traditional banking is the new role of a development banker being assumed by the public sector banks. In this new role, the banks are not only meeting the working capital needs but also financing the development of industries through term lending operations.

From being dispensers of short-term credit, public sector banks are actively helping industrial development by providing access to the capital market and long-term savings of the economy, to the new class of entrepreneurs. Similar promotional functions are being undertaken by the banks in other sectors also, e.g. in agriculture and exports. The various specialised agencies of Government which are helping in the promotion of entrepreneurship and technological improvements in the country are also throwing open new opportunities for banks in this regard.

Branch Expansion and Correction of Regional Imbalances

The new concept of banking required the expansion of the network of branches to the underbanked areas of the country. Under the leadership of public sector banks, between June 1969 and the end of April 1976, the number of offices of all commercial banks in India increased by 12,555, bringing down the average population served per bank office from 65,000 to 26,000. The branch expansion of commercial banks was aimed at correcting regional imbalance in banking development. The new branches established in rural areas may be expected to increase the flow of credit to agriculture in particular and rural occupations in general and also mobilise the savings generated in the rural sectors following bumper harvests.

Area Approach

Another measure adopted by commercial banks to correct the regional imbalance in develpoment was the "area approach" adopted by them. The main instrument of this aspect of banking policy is the Lead Bank Scheme. The lead banks are now engaged in preparing credit plans based on bankable schemes which are expected to assist in the economic development of the rural areas of the country and to bring about a more systematic involvement of commercial banks in grass-root level development. The scheme seeks to bring about co-ordination among all developmental agencies and the Government at the district level in planning and financing developmental projects.

Credit Planning

Alignment of the credit policy with the overall national priorities is one of the important objectives of nationalisation. Sectors which have a high priority in

the national economic policy need to be ensured greater flow of credit as against those which are lower down in the scale of priorities. The purpose of credit planning is to avoid misdirection of credit and to channel it in such a manner as to achieve the targets of production and investment envisaged in the development plans. In view of the shortage of lendable resources to meet the credit needs of industrial and hitherto neglected sectors, credit planning involves a measure of credit rationing based on careful appraisal of projects financed and inter se priorities.

Priority Sectors

Since nationalisation, the accent of the credit policy has been on bringing about a qualitative change in the disposition of bank funds. Banks have been endeavouring to extend liberal credit facilities to the priority and other neglected sectors of the economy like agriculture, small scale industries, exports, road/water transport operators, retail trade/small business, professionals and self-employed persons and education.

Increase in credit given to the priority sectors is only a part of the record, another more important part being the support which the banks have come to give to economic programmes sponsored by the Central and State Governments. Banks' operations are now tuned to successful implementation of food procurement, state trading in raw materials, both imported and indigenous, area development programmes like SFDA/MFAL and Rural Industries Projects.

Differential Interest Rates Scheme

Through normal banking schemes, banks find it difficult to approach a large segment of the poorest strata of the society, who have the necessary skills but not the wherewithal to set up their own business. They need finance but cannot afford the commercial rates of interest

charged by the banks. To take the benefit of bank finance to such people, the Differential Interest Rates Scheme was started in July 1972. Available data indicate that up to the end of June 1975, loans aggregating Rs. 14.85 crores covering 3,47,152 accounts were sanctioned by the public sector banks.

Innovative Banking

Apart from the Differential Interest Rates Scheme, efforts are also being made by many public sector banks to extend direct or indirect benefits of banking to the society in an increasing manner. Schemes to finance qualified persons intending to start new industry or business have been instituted by many of the banks. The 'innovative banking scheme' launched by the State Bank of India which seeks to touch the life of the common man at as many points as possible, is worth mentioning in this connection. Many innovative schemes have been evolved in which the Bank's staff participate in nation-building activities, go all out to seek and to benefit the most neglected sections of the society such as slum dwellers, tribals, prisoners, etc. Similar community service schemes have been started by other public sector banks also.

Deposit Mobilisation

The public sector banks are giving due attention to the question of deposit mobilisation and have devised several attractive schemes to encourage the habit of saving, particularly among the weaker sections of the community. Thanks to the increasing coverage in the rural areas, mobilisation of savings by banks in the rural areas has increased; the share of rural deposits in the total deposits of scheduled commercial banks increased from about 3 per cent to about 8 per cent since nationalisation.

Motivation, Training and Management

When a long established, tradition-bound institutional set-up is to be re-oriented to new tasks, the progress in the initial stages is bound to be slow. The new philosophy must inform all the staff right down to the man at the counter. This is inevitably a slow process, but through a reorganised and enlarged training programme, the public sector banks are trying to achieve this. In the matter of procedural reforms within the banks, the pace has been accelerated, but there is yet inadequate realisation of the need for quick and result-oriented action. Due to excessive concern with procedural niceties and fear of mistakes, basically flowing from distrust, the cost of delays and inaction has tended to be ignored. In a rapidly changing environment, delays would either mean loss of opportunities to make gain or rise in the cost of resources needed to exploit them. This is particularly relevant in investment projects and exports. While safety of funds is an important consideration, a minimum capacity to take calculated risks in using them is also necessary, if bank credit is to promote production and investment. The staff attitudes and management criteria for reward and punishment need to be changed to take account of the loss due to delays and inaction as well as loss due to bad judgement and malafide action.

In order to inculcate these ideas of modern management, nationalised banks are now in the process of adopting performance budgeting and credit planning in their organisation. The tremendous geographical and functional expansion in the operations of Indian banks in general and public sector banks in particular is thus being consolidated and systematised. These instruments of scientific management will help to build into them a new sensitivity to the fast changing environment and dynamism to meet the new challenges.

The nationalisation of major banks was something more than a mere structural reform of the Indian banking

system. It was inspired by a vision of a socially just and dynamic Indian society and a sense of urgency to improve the lot of the poor, who were denied the fruits of economic development. These were clearly reflected in the Prime Minister's broadcast, which contained guidelines for the nationalised banks. The public sector banks are going about their appointed task in right earnest as witness the quantitative and qualitative changes taking place in their operations, procedures and attitudes. A cadre of efficient and dedicated professional bankers is being built up in the country, fully responsive to the needs of the people and policies of the Government. The Prime Minister had reposed faith in banks that they would function as agents of change and development. The performance of the public sector banks so far shows that they are worthy of this faith.

Pressure Cooker Industry

Introduction

The pressure cooker, as an important domestic appliance, is getting increasing acceptance in Indian homes with the spread of urbanisation, education and employment opportunities for women. It has a special appeal to housewives as compared with conventional modes of cooking because of the economies in time and cost involved in cooking. It leads to a seventy-five per cent saving in time, allows more than one dish to be cooked at one time and can operate on any source of fuel like kerosene or gas and hence is not affected by irregular power supply.

The pressure cooker also consumes about twenty-five per cent less fuel than conventional vessels. One major manufacturer claims that his product consumes half a litre less of kerosene per day amounting to savings of two hundred rupees per annum so that the cost of the product can be recovered within a year. Unreliable and inadequate power availability, the rising cost of different fuels, the convenience and ease of operation of the pressure cooker and the saving of time have contributed to its popularity.

Origin and Development

From a modest beginning in 1959, when hardly fifteen thousand pressure cookers were produced in the

country, the industry made rapid strides, producing 1.30 lakh pieces in 1965, 3.50 lakh in 1970, 5.00 lakh in 1972, 5.50 lakh in 1973 and 6 lakh in 1974. There were seventeen units with an installed capacity of 15 lakh pieces engaged in the manufacture of pressure cookers in 1974; they produced about twenty sizes ranging from four litres to sixteen litres.

The pressure cooker industry is characterised by two main features. Firstly, two large units out of the seventeen account for nearly fifty per cent of the total output of the industry. They produced 3.50 lakh pieces in 1974 out of the total output of 6 lakh pieces by the entire industry. The installed capacity in these units in that year was 6.50 lakh pieces accounting for nearly 44 per cent of the capacity of the industry, which stood at 15 lakh pieces. These two units, one in Bombay and another in Bangalore, have been operating from the beginning and are pioneers in the field. They have established their brands in the market with their own distribution network and have only recently been turning towards overseas markets. Secondly, the industry is marked by the concentration of units in the Greater Bombay area. Nine small scale units and one large unit accounting for 64 per cent of the total output in the country are located in this area.

Technology

The manufacture of pressure cookers does not involve any sophisticated technology. This technology is available indigenously. For a unit with a capacity of 50,000 pieces, the requirement of plant and machinery would be in the range of Rs. 2.5 lakhs to Rs. 3.0 lakhs. The simple machines required like a cutting press, a printing press, spinning lathes, a hand press, grinders, polishers, drilling machines, etc., can be obtained indigenously. The low import content and the availability of indigenous technology reduce the uncertainties and complications of manufacture.

Capacity Utilisation : Low

In spite of the expanding market and consistent rise in the production of pressure cookers over the years, the utilisation of capacity in the industry stands at a level of only 40 per cent. The big units maintained their utilisation level at 58 per cent. The small units with an installed capacity of 8.50 lakh pieces and an output of 2.20 lakh pieces in 1973 utilised only 26 per cent of their installed capacity.

Major Constraints

(i) **Irregular Supply of Aluminium** : The main constraints impeding production appears to be the irregular and inadequate availability of aluminium, which accounts for more than fifty per cent of the cost of a cooker. The industry needs three thousand to four thousand tonnes of aluminium per annum in circles of 10 to 20 gauge thickness. The price of aluminium has been rising continuously. It rose from Rs. 8.25 per kg. in 1973 to Rs. 11.25 per kg. in 1974. The industry gets barely 1,500 tonnes at controlled rates and for the rest of the requirement it has to depend on the open market. Small units with a low level of utilisation complain that the large units influence the aluminium dealers and pre-empt the supply. However, production of aluminium has increased in recent months with the improvement in power situation. During the first four months of 1976-77, production of aluminium at 69,692 tonnes registered a rise of 39 per cent over the corresponding period of the last year. This augurs well for many user industries, including the pressure cooker industry.

(ii) **High Prices** : The prevailing high prices of pressure cookers constitute another obstacle to the expansion of the market and full utilisation of capacity. The major manufacturers, who set the trend in the field of

pricing, resort to sporadic hikes in the price whenever the price of aluminium or stainless steel in the market moves up. In 1974, there was a rise in the prices of pressure cookers, which ranged from 35 to 70 per cent. The brand image enjoyed by the product of a particular unit may prevent its sales being affected, but the demand in general is likely to suffer owing to the price rise as marginal buyers may be dissuaded from making their purchases. The margin for distributors is kept at a high level of 20 to 25 per cent adding to the final cost. There is also no regulation on the distribution channels.

Demand Pattern

The major demand for the cookers tends to be around a limited range of sizes among the nearly 20 sizes available in the market. Cookers of sizes varying from 5 litres to 7.5 litres accounted for more than 80 per cent of the total production in 1972. It is often difficult to push the sales of cookers of higher capacity as the price differential between the sizes is substantial. For every increase in the capacity of a cooker by one litre, an additional input of aluminium of half a kg. costing Rs. 4 to 6 is involved, but the difference in the prices of cookers of 5 litres and 7.5 litres in the case of one manufacturer is more than Rs. 60.

So far, only urban and metropolitan areas have been tapped by the manufacturers of pressure cookers. In the estimated sale of 6 lakh pieces in 1974, nearly 5.25 lakh pieces were marketed in the cities and towns, and only 12.5 per cent of total sales were estimated to have been executed in the rural areas. The pattern of regional sales of pressure cookers shows certain peculiarities. Certain brands tend to command loyalty in certain regions. A Bombay based manufacturer with two units, one in Bombay and another at Hoshiarpur, caters mainly to the requirements of north Indian States and covers about 80 per cent of their demand. The other pioneering unit in

Bangalore meets the demand mainly of the South Indian States. Another Bombay unit caters mainly to the market in Maharashtra and Gujarat. Notions regarding the safety factor connected with the make of the cooker, reinforced by the present extensive use of the brand, tend to encourage the potential buyers of the region to go in for the same brand.

There are regional variations in the sizes of pressure cookers preferred. In the southern and western States, cookers of larger capacity varying between 6.5 and 7.5 litres are much in demand, whereas in the northern States sizes around 5 litres are preferred.

Demand Projections

It is estimated that there are at present 30 lakh families using pressure cookers in the country, forming roughly three per cent of the total number of 10 crore households in the country. This indicates the enormous potential that the industry can tap with a price structure within the reach of buyers. Sources in the pressure cooker industry feel that families in the income range of Rs. 500 and above per month provide the potential market for pressure cookers. The 'All-India Household Survey of Income, Savings and Expenditure' conducted by the National Council of Applied Economic Research in 1968-69, put the number of households with an income of Rs. 5,000 and above per annum at 89 lakhs in rural areas and 32.5 lakhs in urban areas together adding to 121.5 lakhs in the country. Even excluding the replacement requirements of the 30 lakh families possessing pressure cookers, nearly 90 lakh families do not have pressure cookers. Even assuming that these families would go in for pressure cookers within a rather long period of ten years to come, an annual demand of 9 lakh pieces can be safely expected. This estimate is rather conservative, as no provision is made for the emergence of many marginal families into the income bracket of Rs. 5,000 and above as a result of the growth in total national in-

come or for the replacement requirements of those families using pressure cookers right from 1959. Considering these factors which are not immediately quantifiable, a total demand of 12 lakh to 14 lakh pieces can be estimated per year.

Export Prospects

Apart from the domestic demand, there is a considerable export potential, which has still to be exploited by the Indian manufacturers of pressure cookers. The export market poses some problems, as it needs pressure cookers of over twenty litres, which are not produced in India at present. It is also true that India faces vigorous competition from countries like China in the markets of less advanced countries in Asia and Africa. However, the most important factor behind the poor export drive has been the easy domestic market with sales taking place at relatively high prices. Attempts made by some producers recently to tap the export market have proved quite productive. The exports rose from a modest level of 300 odd pieces valued at Rs. 0.20 lakh in 1969-70 to nearly 4,700 pieces valued at Rs. 2.80 lakhs in 1974-75. A leading Bombay firm recently achieved remarkable success in countries like Mauritius and Australia. In Mauritius, it is already a leading exporter outshining exporters from other countries. In Australia, within a few weeks the entire stock was sold. These are encouraging signs for the other manufacturers in the field.

The product-mix of the Indian manufacturers needs to be suitably altered to cater to the export market. Cookers of high capacity of more than twenty litres need to be produced. In this direction, the same leading Bombay based firm with its branch unit in Punjab, has made successful strides. It has got a new machine designed by the Central Machine Tools Institute, to produce cookers by the process of flow forming, with base and walls of high thickness for the export market. Its Punjab unit has started

producing cookers of twenty-two litres capacity for the first time in India. It can be expected that other firms will also follow suit and an appreciable export trade with the oil-rich gulf countries and other less developed neighbouring countries in Asia can be expected to materialise. With major manufacturers turning towards the lucrative export market, the smaller units and new entrants can explore the semi-urban and rural markets within the country more intensively.

Outlook for the Future

As against the current demand for 12 lakh to 14 lakh pieces, the present output stands at barely 6 lakh pieces per annum. Though the present installed capacity stands at 15 lakh pieces, the actual utilisation is barely 40 per cent. Therefore, there is good scope for raising production provided efforts are made to reduce the prices of pressure cookers and to penetrate into the rural market in India and the export market. Publicity, especially in the form of demonstration to housewives in groups, would also be essential in pushing the sales of pressure cookers.

Current Topics

Edible Oilseeds and Oils

Production of oilseeds in 1975-76 was placed at 10.54 million tonnes as against 8.36 million tonnes recorded in 1974-75. The groundnut crop in 1975-76 was estimated to have touched a record level of 69.9 lakh tonnes, which was 36.8 per cent higher than 51.1 lakh tonnes in 1974-75. The increase was registered in most of the growing States, including Gujarat, Tamil Nadu, Maharashtra and Madhya Pradesh. Sesamum production at 4.7 lakh tonnes in 1975-76 also recorded a substantial increase of 18.6 per cent from 3.9 lakh tonnes in 1974-75. The increase in the output of sesamum was mainly shared by Rajasthan, Tamil Nadu and Gujarat. The production estimates of rapeseed/mustardseed—the main rabi oilseeds—are not yet available. However, as a result of favourable weather conditions, the output of rapeseed/mustardseed is reported to have gone up in 1975-76. Apart from excellent weather conditions which prevailed throughout the agricultural season last year, a number of measures adopted by the Government to increase oilseeds output, yielded satisfactory results. Under the Intensive Oilseeds Development Programme, 8.4 lakh hectares of additional land were brought under oilseed cultivation in 1975-76 in Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Tamil Nadu and Uttar Pradesh. In addition, about 3.6 lakh hectares of command area under the new irrigation projects were brought under oilseed crops in Andhra Pradesh, Karnataka, Orissa and Rajasthan.

Following the bumper oilseeds crop, there was a downward trend in the prices of edible oilseeds and oils. The index of wholesale prices of oilseeds declined from 308.1 in October 1975 to 236.0 in March 1976 and that of edible oils fell from 318.8 to 234.7 during the same period. The price index of groundnuts had fallen to 211.9 in March 1976 from 306.5 in October 1975, that of sesamum to 277.7 from 281.1 and that of rapeseed to 194.0 from 244.8. The prices started rising from April 1976. The index of wholesale prices of oilseeds increased from 236.0 in March 1976 to 258.4 in May 1976 and of edible oils from 234.7 to 238.0. Since then, the upward trend has continued. In Gujarat, the country's main groundnut producing State, the prices of groundnuts and groundnut oil increased from Rs.165 and Rs.405 per quintal to Rs.213 and Rs.470 per quintal respectively from March 1976 to August 1976. In Andhra Pradesh, another groundnut producing area, the prices of groundnuts and groundnut oil went up to Rs.341 and Rs.635 per quintal in August 1976 from Rs.209 and Rs.432 per quintal respectively in March 1976. In Tamil Nadu, groundnut oil, which was sold at Rs.438 per quintal in April 1976, was available only at Rs.800 per quintal in August 1976. In the same way, prices of groundnuts and groundnut oil rose sharply in Delhi and Bombay. In Gujarat, the price of cottonseeds also had gone up from Rs.84 per quintal to Rs.139 per quintal. In Delhi, sesamum was quoted at Rs.375 per quintal in August 1976, whereas it was available at Rs.309 four months before. Similarly, Agra variety of sesamum oil was available only at Rs.725 per quintal in August 1976 as against Rs.660 per quintal in April 1976.

This sudden and sharp rise in the price of groundnut oil, even in the groundnut producing areas such as Gujarat, Andhra Pradesh and Tamil Nadu, has taken both the consumers and policy-makers by surprise. Supplies of groundnut and groundnut oil from these States to other consuming centres

have fallen to a trickle. This is more intriguing in view of the record groundnut crop harvested in 1975-76.

Several reasons are put forward for the sudden rise in the prices of groundnut oil. Foremost among them appears to be the indiscriminate use of groundnut oil by the vanaspati manufacturers. This has happened despite the directive of the Government of India that only 25 per cent of groundnut oil should be used in the manufacture of vanaspati. It appears that the industry did not adhere to the directive when groundnut oil remained the cheapest available input in the making of vanaspati.

Over and above this, the delay in the onset of the south-west monsoon this year in most of the areas in the country also contributed to the rise in prices in the oilseeds market. The delay and inadequacy of rains in June led to the fears that unless imports of edible oils were liberalised, there would be shortage of edible oils in the country. This turned speculators in the market very active and hoarding on large scale was reported.

This could have been perhaps avoided to a great extent if support price operations to check the prices of groundnut oil from falling had been taken. Sizeable stocks of groundnut oil could have been built up and timely releases for direct consumption as well as for vanaspati manufacture in the current lean season would have checked the large fluctuations in oil prices. Instead, the prices of groundnut oil declined considerably at the time of harvesting. The Government then thought that the increased consumption of groundnut and other edible oils itself will lift the prices of oils to reasonable levels. To some extent, this purpose was sought to be achieved by exporting 5,000 tonnes of groundnut oil. But the export of 5,000 tonnes of groundnut oil and 1,10,000 tonnes of HPS groundnuts (Hand Picked Special) in 1975-76 contributed for the rise in prices.

Another reason for scarcity conditions and spurt in prices is said to be the unofficial ban on the export of

groundnut oil, which has been in operation in the States of Gujarat and Tamil Nadu. In Gujarat, oil millers have reached a voluntary agreement to keep 70 per cent of groundnut oil production for consumption inside the State and export the remaining 30 per cent. In Tamil Nadu, there is no confirmation of a ban even of a voluntary nature. However, the fact remains that very small quantities are reaching other centres from these two States. Thus, in the first two weeks of July 1976, the daily arrivals of groundnut oil in Bombay had dwindled to 30-40 tonnes as against the normal requirements of 200 to 250 tonnes. Even in Madras city, arrivals are reported to have suddenly shrunk and are estimated to be a mere 20 tonnes a day.

Meanwhile, to check the uptrend in the prices, the Government of India has taken several measures. These include: (i) directive to the State Governments that they should not hesitate to invoke the provisions of the Maintenance of Internal Security Act, the Defence of India Rules and the Essential Commodities Act against the hoarders and unscrupulous elements among the traders, (ii) advice to the States of Gujarat and Tamil Nadu to remove the informal restrictions imposed by them on the movement of groundnut oil from these States to the other parts of the country, (iii) banning the export of HPS groundnuts with effect from July 15, 1976, (iv) making the use of imported oils, rapeseed oil, palm oil and soyabean oil obligatory at least to the extent of 50 per cent in the manufacture of vanaspati, and (v) abolishing the import duties—30 per cent on rapeseed and palm oils and 15 per cent on soyabean oil—with effect from August 1, 1976.

Further, the Reserve Bank of India, on July 15, 1976, issued a directive to all scheduled commercial banks enhancing the minimum margins on advances against groundnut, rapeseed/mustardseed, castorseed, linseed, castor oil and linseed oil. Advances against cottonseed and cottonseed

oil have also been brought under the selective credit controls for the first time since August 1971.

Since October 1975, the State Trading Corporation (STC) has been holding a buffer stock of 46,000 tonnes of edible oils comprising imported soyabean, palm and rapeseed oil and a small quantity of sunflower oil. In view of the scarcity conditions prevailing in the oilseeds market, the STC has already contracted for the import of about 80,000 tonnes of edible oil this year. Of this, 50,000 tonnes will arrive in the county by the 15th September 1976. About 25,000 tonnes of imported oil are already in the pipeline. In addition, the STC is holding a stock of 46,000 tonnes of edible oil as mentioned above. This apart, the STC has made prompt delivery arrangements. The delivery of 700 tonnes of edible oil a day in Bombay is considered as a record.

In view of the several measures taken by the Government, the Reserve Bank of India, and the State Trading Corporation and the encouraging reports of the progress of the standing kharif oilseeds crop, it is likely that the prices of edible oils may come down in the near future. Care will, however, have to be taken to see that the prices do not reach uneconomic levels. Otherwise, the purpose will be defeated and the country will not succeed in realising the long-term objective of achieving self-sufficiency in oilseeds production.

The Government of India has left the initiative in the hands of the State Governments for deciding issues relating to the movement of edible oils outside their States. The permit system adopted by the States which enjoy surpluses in edible oils, for taking the stocks to other States has adversely affected such States as Maharashtra which are deficient in edible oils production. Recently, however, the Government of India has stated that it is developing a national plan with regard to the production and distribution of essential commodities like oilseeds, edible oil,

sugar, cotton and domestic fuel. The objective of the plan is to see that while producers are assured of a proper return, the availablIity and prices for the consumers are kept at reasonable levels. Such a plan will help ensure equitable distribution of available oil supplies to all the areas in the country and reasonable prices to the producers and consumers.

Legal Decisions

On Banking

Letter of Credit and Bank Guarantee—Distinction Between

State Bank of India

vs.

Economic Trading Company and Others

A.I.R. 1975 Calcutta 145

Contributed by N. K. Randeria

The contract was for purchase of certain pieces of polythene bags. One of the terms of the contract was that the seller would provide a letter of guarantee for 20 per cent of the face value of the goods sold in favour of the consignee through an authorised Egyptian bank. The seller requested the State Bank of India for a packing credit loan and performance guarantee. The guarantee was re-

quired to be issued in favour of the Bank of Alexandria. The State Bank cabled to the Bank of Alexandria to execute an unconditional guarantee representing 20 per cent of f.o.b. value of the goods. Accordingly, a letter of undertaking was executed by the Bank of Alexandria in favour of the foreign buyer, undertaking to make payment on demand notwithstanding "any contestation". Thereafter, on the ground that the quality of the goods was not according to specification (this was denied by the seller), the foreign buyer cancelled the contract. The Bank of Alexandria informed the State Bank that the foreign buyer had requested implementation of the letter of undertaking and, therefore, requested the State Bank to remit cover therefor. In the meantime, on an application made in a suit filed by the seller, an injunction was granted by the Calcutta High Court restraining the foreign buyer from receiving or claiming any money and also the Bank of Alexandria from making any payment under the letter of guarantee. On another application of the seller, an injunction was granted restraining the State Bank from making any payment to the Bank of Alexandria. Accordingly, the State Bank advised the Bank of Alexandria of its inability to make payment. The Bank of Alexandria asserted that according to Egyptian Law as well as the terms of the guarantee, the Bank of Alexandria was required to pay the value thereof to the beneficiary on demand notwithstanding any contestation on the part of the seller, and, therefore, requested the State Bank to remit the amount to them. The State Bank again wrote to the Bank of Alexandria stating that it was not in a position to make the payment because of the order of the High Court. Thereafter, after affidavits were filed, the application ultimately came up for hearing and was disposed by the High Court, which ordered the State Bank to deposit in Court, a sum of Rs. 12 lakhs out of the guaranteed amount, and declared that upon such payment, the State Bank would be exonerated from its liability in respect of that sum.

Being aggrieved by, and dissatisfied with the said Order, the State Bank preferred an appeal.

It was contended on behalf of the State Bank that—

(i) there was an unconditional obligation to pay "without contestation" by the Bank of Alexandria at the instance of the State Bank. Therefore, in accordance with the practice and obligation of the international trade, the State Bank should not be restrained from honouring the obligation entered into with the Bank of Alexandria.

(ii) The State Bank had given an undertaking to the Bank of Alexandria to pay without contestation or without protest and had given an indemnity. Therefore, the Bank of Alexandria was entitled to enforce the obligation. The Order restraining the State Bank from making payment would hamper the international reputation and credit of the State Bank.

In support of the aforesaid contentions, reliance was placed on the decision of the Supreme Court in the case of Tarapore & Co., Madras vs. Tractors Export, Moscow, AIR 1970 SC 891 (See 1970 S. B. I. Monthly Review, p. 265). After considering the decision of the Supreme Court as well as the decision of the Division Bench of the Calcutta High Court in the case of the Minerals and Metals Trading Corporation of India Ltd. vs. Surajbalaram Sethi (1970) 74 Cal.W.N. 991, the High Court pointed out the distinction between an irrevocable letter of credit and a bank guarantee as follows :

> Opening of a confirmed letter of credit constitutes a bargain between the bank and the vendor of the goods, which imposes upon the bank an absolute obligation to pay irrespective of any dispute there might be between the parties as to whether the goods are up to contract or not. The letter of credit is independent of, and unqualified by, the contract of sale or underlying transaction.

> A vendor of goods selling against a confirmed letter of credit is selling under the assurance that nothing will prevent him from receiving the price. Payment under the irrevocable letter of credit does not depend on the performance of obligation on the part of the vendor except those which the letter of credit expressly impose. On the other hand, a bank guarantee has a dual aspect. It is not merely a contract between the bank and the beneficiary of the guarantee, it is also a security given to the beneficiary by a third party. In seeking to enforce the bank guarantee, the beneficiary of the guarantee, in effect, seeks to realise the security furnished by the third party, and the third party has, therefore, locus standi to challenge the enforcement of the guarantee. Unless there is some act of omission or commission on the part of the third party, payment under a bank guarantee does not become due.

Pointing out that except for the use of the words "we indemnify" in the telegram addressed to the Bank of Alexandria, the terms and conditions of the indemnity given by the State Bank were not known, the High Court presumed that the indemnity must be for the loss to be caused by the conduct of the other party. Since the Bank of Alexandria had been restrained by an order of the Court from making any payment, and since the said order was binding upon that Bank until it was set aside, it was not correct, observed the High Court, to say that the Bank of Alexandria would be under an obligation to pay without contestation. The unilateral assertion by the Bank of Alexandria that they were, under the Egyptian Law, under an obligation to pay, could not be conclusive. International credit also could not and should not be sought by such dubious process of permitting circumvention of lawful order of the High Court. The High Court, therefore, was of the view that an order restraining the State Bank from making payment to the Bank of Alexandria would not be improper, invalid or illegal, but would be on the contrary

quite justified. Since the State Bank was not a party to the suit, the High Court directed that the State Bank be added as a party to the suit so that order made by the High Court was binding upon it.

In the result, the Order to deposit the sum of Rs. 12 lakhs by the State Bank was modified and the State Bank was merely restrained from making payment to the Bank of Alexandria.

(Shri **N. K. Randeria** is the Law Officer in the Bank's Bombay Local Head Office.)

Statistics

TABLE I

SELECTED ASSETS AND LIABILITIES OF BANKS IN INDIA

(Rupees in crores)

	Position as on 27-8-1976	A Month ago 30-7-1976	A Year ago 29-8-1975
State Bank of India			
Aggregate Deposits:	3,768.6	3,647.6	2,946.8
Demand (Exclusive of inter-bank transactions)	1,547.1	1,477.9	1,253.7
Time(-do-)	2,221.5	2,169.7	1,693.1
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	2,701.7	2,694.8	1,973.3
Investments in Government Securities	947.2	912.2	776.7
Associate Banks			
Aggregate Deposits:	860.5	838.5	705.6
Demand (Exclusive of inter-bank transactions)	353.9	348.5	296.7
Time (-do-)	506.6	490.0	408.9
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	658.3	666.1	526.5
Investments in Government Securities	165.9	148.0	124.9
All Scheduled Commercial Banks			
Aggregate Deposits:	15,700.2	15,422.0	12,919.1
Demand (Exclusive of inter-bank transactions)	6,244.6	6,199.7	5,349.7
Time (-do-) ..	9,455.6	9,222.3	7,569.4
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	11,679.0	11,746.4	8,845.3
Investments in Government Securities	3,651.4	3,589.3	3,046.3

TABLE II

SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	March 1976		March 1975	
	State Bank of India	Associate Banks	State Bank of India	Associate Banks
No. of Offices	3,866	1,830	3,436	1,735
Advances				
to Agriculture:				
(i) Direct				
No. of Accounts	8,53,538	1,69,567	5,93,883	1,18,551
Outstandings	187	53	127	37
(ii) Indirect				
No. of Accounts	17,349	3,589	8,871	3,263
Outstandings	65	22	60	16
to Small Scale Industries:				
No. of units	86,722	39,882	72,156	35,023
Outstandings	307	85	293	78
to Small Business:				
No. of Accounts	1,58,488	50,370	1,09,727	32,695
Outstandings	58	15	43	11
under Differential Interest Rates Scheme:				
No. of Accounts	2,08,372	49,348	1,14,573	28,942
Outstandings	9	2	5	1
for Exports:				
Outstandings	227	45	183	25

TABLE III

SELECTED ECONOMIC INDICATORS

	Position as on 27-8-1976	A Month Ago 30-7-1976	A Year Ago 29-8-1975
	(Amounts in rupees crores)		
1. Money Supply with the Public ...	13,524	13,514	11,959
(a) Currency with the public ...	7,055	7,118	6,419
(b) Deposit money with the public	6,469	6,396	5,540
	June 1976	May 1976	June 1975
2. Foreign Exchange Reserves			
(a) SDRs* ...	18.96	19.85	22.63
(b) Gold ...	182.53	182.53	182.53
(c) Foreign Exchange ...	1,751.18	1,595.06	538.27
3. Money Rates	(Per cent per annum)		
(a) Bank Rate ...	9	9	9
(b) State Bank of India Advance Rate ...	14	14	14
(c) State Bank of India Hundi Rate ...	14-16	14-16	14-16
(d) Call Money Rate (Bombay) ...	10.2	9.8	8.8
(e) Bazar Bill Rate (Bombay) ...	21	21	21

*In crores of SDRs.

TABLE III

SELECTED ECONOMIC INDICATORS (Contd.)

	April 1976	March 1976	April 1975
4. Index Number of Industrial Production (1970=100)			
General Index	129.4	138.2	112.8
	Week ended 28-8-1976	Week ended 31-7-1976	Week ended 30-8-1975
5. Index Number of Wholesale Prices (1961-62=100)			
All Commodities ..	311.3	306.8	311.4
Food Articles ..	343.5	338.9	365.0
Liquor & Tobacco	336.0	327.2	310.2
Fuel, Power, Light and Lubricants	370.7	370.1	353.0
Industrial Raw Materials ..	317.3	301.4	279.6
Chemicals	285.6	293.1	328.8
Machinery and Transport Equipment ..	258.4	257.7	261.9
Manufactures ..	264.1	263.0	253.6
	May 1976	April 1976	May 1975
6. Consumer Price Index Number for Industrial Workers—All-India (1960=100) ..	290	289	327
7. Foreign Trade		(Rupees in crores)	
Total Imports ..	341.7	321.9	331.3
Total Exports (including re-exports) ..	373.7	323.8	254.6

ज्ञानं ज्ञेयं परिज्ञाता, त्रिविधा कर्मचोदना।

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Public Sector Enterprises Since Emergency*

B. B. Pawar and R. Venkataramana Rao

Since the declaration of national emergency in June 1975, public sector undertakings have not only improved their own performance in all respects, but they have also been giving a lead to the other sectors. The entire country is looking to them with high hopes and there is confidence all round that these hopes will not be belied.

It is in the fitness of things that in a developing country like India, public sector undertakings have been given the pride of place in the plans for development. The adoption of the socialistic pattern of society as the national objective, as well as the need for planned and rapid development, requires that all industries of basic and strategic importance or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the state could provide have also to be in the public sector. In the words of the Prime Minister, Smt. Indira Gandhi, the public sector has been developed "to gain control of the commanding heights of the economy, to promote critical development in terms of social gains or strategic values rather than primarily on

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* The views expressed in this article are personal views of the authors and they do not necessarily represent those of the State Bank of India and its Associate Banks.

considerations of profits and to provide commercial surpluses with which to finance further economic development."

Growing Importance of Public Sector Undertakings

In the successive Five Year Plans, the share of public sector investment has grown both absolutely and relatively. In the First Plan, the ratio of investment in the public and private sectors was 46:54 and in the Second Plan, it was reversed. In the Third and Fourth Plans, the ratio was 60:40 and in the Fifth Plan 66:34. From five units with a total investment of Rs. 29 crores at the commencement of the First Five Year Plan, this sector has grown to 129 units with a total investment of Rs. 7,261 crores in 1974-75. The total investment in the Central Government industrial and commercial enterprises is estimated to be around Rs. 8,000 crores at present. Public enterprises are operating in such diverse fields as steel, heavy and light engineering, fertilisers and basic chemicals, drugs, mining and minerals, petroleum, ship-building and aviation. Of the total investment in the public sector, the steel industry accounts for 33 per cent, followed by minerals and metals (14%), chemicals and pharmaceuticals (13%), heavy engineering (11%), transportation (4%), services (9%) and others (16%).

Public Sector : Contribution to National Income

Reflecting its growing importance, the contribution of the public sector to national income has been rising steadily over the years. Its share in the gross domestic product thus rose from Rs. 1,538 crores or 10.9 per cent in 1960-61 to Rs. 7,731 crores or 14.8 per cent in 1973-74. Considering the rapid strides made by public sector undertakings during the last two years, it is likely that the share of the public sector may have gone up still further.

Provision of Infrastructure Facilities

Since the advent of planning in 1950-51, the country has made a total investment of over Rs. 21,200 crores for

improving and expanding railways, roads, bridges, posts and telegraphs, power, telecommunications, etc. The huge investment has helped widen the infrastructure base, which is so vital for economic development. It is only because of the extensive infrastructure facilities throughout the country that the private industry has been able to progress. With a route length of 60,234 kms., the Indian railway system is the largest in Asia and the fourth largest in the world. In order to catch up progressively with the increasing requirements of haulage of passenger and goods traffic following a faster rate of growth of population in the country and growing industrialisation, the Indian railways have been increasing their capacities and rationalising their operational system. The Indian road network is one of the largest in the world. The road length, which was only 4 lakh kms. in 1950-51, rose three-fold to 12.0 lakh kms. in 1975-76. From only 19.1 lakh kws. at the time of independence, the electricity generating capacity increased more than ten times to 220 lakh kws. in 1975-76.

Technological Base Strengthened

India's technological base would not have been what it is today but for the substantial contribution made by the public sector in this respect. Most of the public sector enterprises exist in fields where indigenous technical know-how was almost non-existent. Today, the manufacturing profile of the public sector includes production of aircrafts, ships, locomotives, wagons, teleprinters, computers, electronic equipment, telephones, cables, turbo-sets, hydro-sets, industrial motors, steam and water turbines, crude oil, gas, petroleum products, antibiotics, surgical instruments, medical X-ray films, machine tools, watches and printing presses. A great deal of emphasis is being laid by most of the public enterprises on research and development. Thus, the total expenditure on scientific research and development by the public sector increased from Rs. 29 crores in 1958-59 to Rs. 276 crores in 1974-75 and accounted for 91 per cent of the expenditure on R. & D. in the country.

Among the developing countries, India is, perhaps, the only country which has developed production of wide range of defence equipment through public sector undertakings. Since the need for importing crude oil continues, India has intensified exploration activity within the country and the Oil and Natural Gas Commission and the Oil India have discovered and developed recoverable reserves. The Fertiliser Corporation of India has now developed its own technical know-how, design and engineering capability. It can execute modern fertiliser plants from the blue-print to the final commissioning stage. For attaining the goal of self-sufficiency in steel production and for self-reliance in steel technology, the Central Engineering and Design Bureau (CEDB) was established in 1959 as a separate research department in the Hindustan Steel Limited. With the growth and extension of its activities, CEDB was converted into a full-fledged autonomous company, Metallurgical and Engineering Consultants (India) Ltd. (MECON). The contribution of MECON in the R. & D. field ranges from development of technical know-how for sponge iron and steel plants through direct reduction process to the manufacture of refractories and equipment through indigenous know-how.

Generation of Surpluses

The public sector enterprises after being in the red for several years, turned the corner in 1972-73, and since then, have shown a sustained improvement in their performance. From a loss of Rs. 19 crores in 1971-72, they have advanced to a profit of Rs. 184 crores in 1974-75. These trends underscore the resilience and strength of the public sector enterprises. With the steady improvement in the capacity utilisation, better inventory/materials management, improved cash management, effective monitoring of production, responsive co-operation of workers and a general rise in morale, a large segment of public sector enterprises is expected to show further improvement in the coming years. As a result of improvement in profitability, public sector enterprises were able to generate internal resources by way of depreciation and retained profits

amounting to Rs. 580 crores in 1974-75, which were larger than Rs. 553 crores assumed in the draft Fifth Five Year Plan.

Public Sector Undertakings : Largest Employer

The public sector has been the largest employer in the country, accounting for about 65 per cent of the total employment. The Committee on Public Undertakings observed that if the public sector enterprises would work at optimum capacity and after consolidating it, enter into new fields, they could help a lot in relieving unemployment in the country. Of the total labour force employed in the public sector, about 50 per cent is employed in minerals and metals and 22 per cent in steel and heavy engineering industry.

In pursuit of the enlightened national policy, the public sector enterprises have established townships around the projects. These townships have not only generated economic activity, but also provided better educational, medical and health facilities in these regions. Besides, public sector corporations have taken up the job of protecting employment and output through the takeover of sick units like textile mills and engineering factories, thereby fulfilling a basic objective of public policy.

Public Sector Undertakings: Instrument of Government Policy

Public sector undertakings are important instruments of Government policy. The effectiveness of public sector enterprises as an instrument of national policy can be judged from the progress achieved in the field of industrialisation, import substitution, export promotion and maintenance of price stability. The heavy machines and heavy engineering equipment, which are manufactured entirely in the public sector, have not only speeded up the process of industrialisation but also saved substantial foreign exchange by cutting down imports. The trading operations of public enterprises like State Trading Corporation, Minerals and Metals Trading Corporation, Cashew Corporation of India, Jute Corporation of India, Cotton Corporation

of India, Handicrafts and Handloom Corporation of India and Project Equipment Corporation have helped to ensure price stability in respect of goods traded by them and have also achieved a major breakthrough in their exports. The role played by the Food Corporation of India in procuring, storing and distributing foodgrains has had a salutary effect on the prices of food articles in recent years. Considering the success achieved by the Food Corporation and the shortages that have come to the surface recently, there appears to be a need for setting up similar corporations for other essential commodities like oil and oilseeds and critical industrial raw materials.

Promotion of Ancillaries

Public sector has played a significant role in the dispersal of industries and in decentralisation of economic power by encouraging the setting up of ancillary units. Considerable progress has been made in starting ancillary units under the umbrella of public sector enterprises. In the Bokaro industrial complex, over 60 ancillary units have been set up, 203 entrepreneurs have been allotted land and 82 units are under construction. This effort has provided employment to about 700 workers. The industrial estate attached to the Bhopal complex of Bharat Heavy Electricals Limited has 43 ancillary units with an annual production capacity of Rs. 2.5 crores. Heavy Engineering Corporation, Ranchi, has developed an industrial estate at Tapudanu industrial area and has set up 39 units with a plan to go up to 100 units. The industrial estate set up by Hindustan Machine Tools in its Bangalore complex has 51 ancillary units. Indian Telephone Industries has set up 20 ancillary units and about 500 items have been identified for production in these units. Other public sector undertakings like Hindustan Steel, Fertiliser Corporation, Hindustan Shipyard, Bharat Heavy Plate and Vessels also promote the growth of ancillary units in their respective areas of operation.

National Emergency and Public Sector Undertakings

The proclamation of national emergency on the 25th June 1975 has helped the economy in general and public sector en-

terprises in particular to achieve a major breakthrough in their performance. The period of two years immediately preceding emergency was marked by unprecedented inflation, lower food-grains production, low rate of industrial growth, industrial unrest, hoarding and speculative activities by anti-social elements, smuggling and tax-evasion. The country was drifting towards the brink of economic breakdown. It was a challenging task for the national leadership which has succeeded in arresting the deteriorating situation and restoring normalcy in the country.

The proclamation of emergency has helped in easing the tension and restoring calm throughout the country. There was a welcome, though belated, recognition of the value of discipline, hard work, administrative efficiency, economic development and social progress. Attendance in public sector undertakings has shown a vast improvement and disposal of work has become more prompt and efficient.

Sharp Increase in Production

Since the declaration of emergency and the launching of the 20-Point Economic Programme by the Prime Minister, India's economy has witnessed spectacular breakthrough on the production front in several industries and in this, the public sector undertakings have played a prominent role. Thus, the weighted average rate of growth for the public sector as a whole excluding National Textile Corporation was as high as 15 per cent during April-December 1975. There was a dramatic increase in the capacity utilisation of the public sector units in India during 1975-76. Thirty units registered capacity utilisation of more than 100 per cent and another group of 30 undertakings increased their capacity utilisation beyond 75 per cent. The capacity utilisation of the units which have crossed 100 per cent mark ranges from 102 per cent to 147 per cent. The distinction of 147 per cent capacity utilisation has been achieved by Hindustan Zinc, Tundu. The other units above 100 per cent mark include Bharat Heavy Electricals, Tiruchirapalli (144%), Durgapur Steel Plant (118%), Bharat Coking Coal (109%), Coal India Ltd. (110%

to 117%), Hindustan Shipyard Ltd. (128%), Hindustan Photo Films Manufacturing Company (133%), Indian Telephone Industries, Bangalore (133%), Bharat Heavy Electricals Ltd., Hyderabad (134%) and Hindustan Insecticides, Delhi and Alwaye (113%).

The performance of the steel units in the public sector, viz., Bhilai, Durgapur, Rourkela and Bokaro since emergency has been remarkable. Between June 1975 and May 1976, they produced 3.82 million tonnes of steel compared to 2.84 million tonnes in the corresponding period of the previous year, registering an increase of 34 per cent. As a result of the higher production, the import of steel declined sharply to Rs. 71 crores in 1975-76 from Rs. 346 crores in the previous year. Besides, foreign exchange worth Rs. 114 crores was earned through steel exports as against only Rs. 19 crores in 1974-75. The aggregate net profits of the public sector steel units in 1975-76 at Rs. 52 crores were higher by 40 per cent than those in the previous year.

The heavy engineering units in the public sector achieved a rise of 32 per cent in the value of production from Rs. 560 crores in 1974-75 to Rs. 751 crores in 1975-76. These units registered an increase of 22 per cent in their turnover in 1975-76.

The coal industry in the public sector produced nearly 99 million tonnes against 88 million tonnes in the previous year. The average output per man-shift rose to 0.84 tonne at the end of February 1976 from only 0.66 tonne a year ago. With better supply position to fully meet the internal demand, the Coal India Ltd. is now actively exploring the possibilities of exporting Indian coal to neighbouring countries and to Europe and the first shipment of coal to Europe has already been made.

The Fertiliser Corporation of India achieved an increase of 29 per cent in production in 1975-76. The Oil and Natural Gas Commission has made tremendous progress in oil exploration both on-shore and off-shore. The recent success achiev-

ed in the Bombay High and Bassein structures holds out considerable promise of reducing the imports of petroleum and petroleum products. The Commission expects to step up production and achieve a 10-million tonne production rate within a few years.

Role in Price Stability

Public sector enterprises meet many of the basic needs of consumers and private industries ; Government has, therefore, maintained a very close interest in the pricing policies of the industries. Here, public sector undertakings have a special role to play in price stability. If their prices are kept below the cost of production, this will lead to artificial stimulation of demand and a heavy burden of support on the tax-payers. The top management of the public enterprises is conscious of its obligations to contribute towards price stability in the economy. Their efforts have, therefore, been directed to augment measures within the public enterprises to effect cost reduction, better utilisation of materials, better management of funds and other steps which would ensure maximum utilisation of resources at minimum cost. These measures have, over the last two years, been reflected in better working results and increased profits in the shape of increasing turnover and higher margin of profits. At the same time, several public sector enterprises have passed on the benefits of better utilisation of their capacities and resources to the consumers in the shape of quality goods and lower prices. The Bharat Electronics Ltd., which produces a wide range of electronic equipment for Defence Services and electronic components for the private electronic industry in the country, has reduced the prices of several of its products like the T.V. picture tubes, semi-conductors, domestic radio transistors, radio receivers and amplifiers. The reduction of prices covers a wide range of products. The Indian Telephone Industries has brought down the selling price of its small exchange lines. The Hindustan Machine Tools

has also been able to maintain its price level for a large number of sophisticated products and bring about a reduction of 15 to 17 per cent in the case of letter press printing machines. Tannery and Footwear Corporation has given a lead to other footwear manufacturers by effecting a reduction of Rs. 4 to Rs. 8 per pair. Similarly, the Modern Bakeries has brought down the price of a loaf of bread by 10 paise in many of its manufacturing centres. This enterprise has taken steps to ensure, through regular company operated delivery system, that its products reach the areas populated by the weaker sections.

Workers' Participation and Training

The 20-Point Programme has laid considerable stress on the association of the workers in the management process. All major public enterprises have set in motion the formation of shop floor councils and Joint Management Councils. Each public sector steel plant has worked out its own pattern of the scheme and implemented it in close co-ordination with the recognised unions and other unions. There is also a permanent Secretariat in each plant headed by a senior officer of the Personnel Department to assist the Joint Councils. Participation falls broadly into two categories, work-based and welfare-based. A review of working of the system is undertaken each quarter. Besides these plant level arrangements at the national level, the steel industry has a Joint Consultative Committee.

The 20-Point Economic Programme has also laid emphasis on the obligation of the industries to provide training facilities to young men in the country seeking employment. The steel industry in the public sector has employed 2,831 apprentices, three heavy engineering units took in 3,185, four other engineering units employed 1,894 apprentices. The Fertiliser Corporation of India took 785 apprentices. These illustrative figures go to show the opportunities that have been provided by the public enterprises to the technically qualified unemployed. With the training that they would be getting in various trades and in-plant

training, their chances of getting gainful employment are greater, and in many cases, the enterprises themselves would be absorbing a number of them.

State Bank of India's Role in Assisting the Growth of Public Enterprises

The State Bank of India, having been established in 1955 as an important instrument of public policy, has been financing most of the enterprises in the public sector since its inception and meeting their growing and diversified financial needs. At the end of March 1966, the State Bank's assistance to State-owned and State-managed concerns in industry and commerce aggregated Rs. 134 crores and accounted for 85.1 per cent of the total scheduled commercial banks' advances to such concerns. With the nationalisation of major banks in July 1969 and adoption of consortium approach for financing large advances, the State Bank has been participating actively in the financing of public sector enterprises and food procurement operations. The Bank's total assistance to the public sector (including food procurement advances) stood at Rs. 938 crores at the end of December 1975 and formed about 40 per cent of its total advances.

Public Sector : Need to Enter Consumer Goods Industries

As a matter of conscious policy, public sector has mostly confined itself to the provision of infrastructure and setting up of basic and heavy industries. Only recently, it has entered the consumer goods industries and that too in a small way. For improving the nutritional standards of the masses and for developing the bakery industry on sound and scientific lines, the Modern Bakeries (India) Ltd. was incorporated on October 1, 1965. The public sector's entry into the textile industry in 1968 with establishment of National Textile Corporation (NTC) was not a part of deliberate policy to enter consumer field but due to the need to look after sick and closed textile units for preventing unemployment and loss of produc-

tion. The success of Modern Bakeries and NTC in their respective fields and the need to have control over prices of consumer goods point out the necessity for the public sector to enter into other important consumer goods industries as well as regulate the price trends and protect consumers from exploitation by the producers in the private sector.

The Indian economy is on the threshold of a major phase of rapid economic expansion. The public sector undertakings have acquitted themselves well during the last one year by improving their performance. There is now a sense of direction and specific purpose in their functioning. The recent experience with public sector undertakings shows that with right approach, significant progress can be achieved in a short period of time. However, there is no room for complacency. These undertakings have a long way to go and many promises to keep as they cover a vast and varied range of activities to effect structural changes in the nation's economy.

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Cigarette Industry

Introduction

Cigarette smoking is essentially a 20th century delight. In Europe, while tobacco had been smoked in pipes and as cigars and used as snuff for some 400 years, in India, the advent of tobacco smoking habit is traceable to the royal courts of the Moghuls and the Rajputs in the 16th and 17th centuries and the entry of the Portuguese on the scene. However, cigarette smoking on a large scale is a phenomenon of recent decades.

The cigarette industry is the one whose output kept on rising even during the recessions. This has been possible because of the steadfast devotion of the ever-growing smoking fraternity and a fairly good raw material base that the country provides. The industry in India operates under conditions which are close to perfect competition. Beginning from the purchase of raw tobacco till the marketing of cigarettes, there is extensive competition prevailing in the country. The competition is both quality-wise and price-wise. The buyers of cigarettes have good knowledge of the different brands available in the market.

Development

The first cigarette manufacturing factory in India was set up in 1906 by a foreign company, viz., India Tobacco Company Ltd., at Monghyr in Bihar. Later on, this company established a chain of factories at Bangalore (1912), Sahranpur (U.P.) (1928), Calcutta (1934) and Bombay (1942). The first cigarette factory wholly owned by an Indian entrepreneur was set up by the Golden Tobacco Ltd. in Bombay in 1930. At present, there are 18 major cigarette manufacturing companies in India employing over 90,000 persons.

With an annual production of nearly 60,000 million pieces, India ranks tenth in the production of cigarettes in the world. However, India's share in the world output of cigarettes works out to only 1.9 per cent. In Asia, India stands second to Japan, though with a wide margin.

Raw Materials : Easy Availability

Raw tobacco is the basic raw material for making cigarettes. In addition to raw tobacco, cigarette paper, cellophane paper, filter rods, glycerine, glucose and a range of packing materials like cardboard, tins, waterproof and other types of paper are required. Most of these items are indigenously manufactured. About half-a-million kgs. of unmanufactured tobacco is imported annually for blending purposes.

Cigarette Manufacturing Process

The manufacture of cigarette is an extremely elaborate and complex process. The several grades or types of tobacco are carefully blended in proper proportions for producing cigarettes of definite blend. Selection and blending of tobacco is one of the most important operations in the manufacture of cigarettes. A few manufacturers spray the tobacco leaf with "flavourings", particularly in the case of cheaper brand of cigarettes. Various

concoctions of glycerine, glucose and essential oils are used to maintain moisture in tobacco and improve the flavour.

The tobacco leaves are passed through a series of chambers permeated with moisture to render them soft and pliable. Thereafter, the mid-ribs of the leaves are removed. Then they are built into heaps and allowed to mature so that tobacco becomes a little more mellowed in taste. During the next stage, the soft leaf is dried to the extent that it is suitable for cutting. The leaves are then cut into fine shreds. The cut tobacco is then passed through a machine consisting of large revolving cylinders which are heated. This has the effect of loosening the cut tobacco and making it light and fluffy. Afterwards, it is passed into revolving drums, through which cold air is circulated. The particles of dust or stem are then separated by sieves. The cut tobacco is then taken to the storage room where it is allowed to cool and mature for about two days. Thereafter, it is fed into large hoppers from where it is drawn over a wide chute by fast revolving rollers. At the bottom of the chute, in a narrow trough, runs the cigarette paper in an endless stream. Before reaching the trough, the paper is printed by a printing press attached to the machine with the name of the brand on each cigarette length. In the case of filter-tipped cigarettes, the paper passes through a filter-tipping apparatus where the tips are securely fastened to the paper in the required position. The tobacco from the chute falls over the swiftly moving cigarette paper, one edge of which is mechanically pasted and quickly folded over the tobacco. The pasted lap of the paper is then automatically sealed. An electrical heating device quickly dries the paste. The cigarette thus made is endless and a fast revolving circular knife cuts it to required length.

Afterwards, cigarettes are put into trays and allowed to condition for a specified time in special rooms where the temperature and humidity are controlled. Most of

the bigger cigarette factories possess machines which pack cigarettes in cartons, at the same time placing the aluminium foil around the cigarettes. The cartons then go to another machine which wraps them in cellophane or other moisture-proof and transparent paper, which also enables the consumer to be sure that the cigarettes have not in any way been tampered with after they left the factory.

Tobacco Cultivation in India

India is the third largest producer of tobacco in the world after the U.S. and China. The area under tobacco has risen significantly from 3.48 lakh hectares in 1949-50 to 4.60 lakh hectares at present. Production of tobacco rose from 268 million kgs. in 1949-50 and attained peak level in 1971-72 at 419 million kgs. In 1975-76, the production stood at 360 million kgs. Nearly one-fifth of the tobacco production is used in the cigarette industry. About twenty-five per cent of tobacco output is exported and the rest is used in the manufacture of bidis and other products for smoking and snuffing.

Andhra Pradesh and Gujarat account for nearly 73 per cent of the total tobacco production in the country. State-wise distribution of the area under tobacco cultivation shows that Telengana Region in Andhra Pradesh accounts for the largest share (43%) of tobacco produced in India. The loose soil and moist climate of Guntur, Krishna and East and West Godavari, Prakasam, Nellore and Khammam districts of Andhra Pradesh are best suited for the cultivation of tobacco.

There is regional specialisation in the production of different varieties of tobacco. Bidi tobacco is grown in the Charotar area of Gujarat, which includes Anand, Borsad, Petlad and Nadiad talukas of Kaira district.

Virginia Cigarette Tobacco

The cultivation of virginia cigarette tobacco on a commercial scale began about 40 to 45 years ago in India. The four coastal districts of Andhra Pradesh, viz., Guntur, Krishna, East and West Godavari account for about 95 per cent of the area and the remaining area is in Karnataka and Maharashtra States. Hunsur in Karnataka and Vijapur in Gujarat have been found to be potential areas for the development of virginia tobacco. The total area in India under virginia cultivation is around 1.4 lakh hectares and the average annual production is 130 million kgs.

Tobacco : Flue Curing

The curing consists of drying green leaf under artificial atmospheric conditions, whereby starch in the leaf gets converted into sugar and the green tobacco becomes bright, aromatic and fine textured. The leaves of cigarette tobacco are harvested by priming, i.e., in instalments, as they become ripe. The ripening of the leaves starts from the bottom. Only those leaves that show proper ripeness are harvested from each plant. Cigarette tobacco is cured by indirect application of artificial heat. In India, wood or coal is used, but in foreign countries, oil and natural gas are commonly used. Heat is circulated through flues (channels for conveying hot air) and is allowed to escape from the bottom of the barn. The first stage in curing is to allow the leaf to turn yellow. This takes 30 to 40 hours at a temperature maintained from 85° to 105° F. When most of the leaves turn yellow, the next stage is to fix the colour by raising the temperature from 105° to 120°F for a period ranging from 5 to 10 hours. After this, the lamina and mid-ribs are dried. This is done in two stages. First, the lamina is dried by raising the temperature by 2° to 3°F per hour till it reaches 140°F. When the lamina is dry, the temperature is further raised from 160°F to 165°F to dry the mid-ribs. After the leaf is cured, it is allowed to absorb moisture during the night so that it can be unloaded in the morning without damage.

Foreign Sector : Dominance

Nearly 80 per cent of the production of cigarettes is controlled by four foreign companies, viz., India Tobacco, Vazir Sultan, National Tobacco and Godfrey Phillips. Due to historical reasons, tobacco growing in India for the purpose of manufacturing cigarettes was sponsored by foreign companies. By having their own tobacco farms, they have ensured steady supply of raw materials for their factories. Besides, by adopting tactics like product differentiation and aggressive marketing, they have maintained their lead in the market vis-a-vis Indian manufacturers. At present, new licences for expansion are not given to any foreign-owned or controlled company unless they increase the share of equity participation by Indians.

Capacity and Production : Encouraging Trends

Both the capacity and production of cigarettes have been maintaining an encouraging trend since 1951. Between 1951 and 1975, the capacity rose by more than two-fold from 30 billion to 72 billion pieces. Reflecting the growing demand and the absence of any major bottlenecks in production, capacity utilisation has been very satisfactory. Production has also been maintaining a steady uptrend barring a few years, when it declined only marginally. Between 1951 and 1974, production of cigarettes rose more than three-fold from 2,145 crore pieces to 6,587 crore pieces. In 1975, production declined to 5,967 crore pieces due to poor offtake in the costlier brands and increase in prices.

Presently, over 100 brands of cigarettes are being manufactured in India, of which 11 per cent are filter-tipped. Ever since the medical opinion warned against smoking, there has been a shift towards filter-tipped cigarettes as these are considered to be less harmful. There is general preference for medium and low priced cigarettes.

The installed capacity, production and capacity utilisation are given in the following table :

TABLE NO. 1

Cigarette Industry : Installed Capacity, Production and Capacity Utilisation

(In crore numbers)

Year	Installed capacity	Production	% variation over the previous year	Capacity utilisation (%)
1951	3,000	2,145	—	71.5
1952	3,000	2,012	— 6.2	67.1
1953	2,431	1,842	— 8.4	75.8
1954	2,425	1,983	+ 7.7	81.8
1955	2,425	2,283	+15.1	94.1
1956	2,425	2,630	+15.2	108.4
1957	3,188	2,889	+ 9.9	90.6
1958	3,188	2,984	+ 3.3	93.6
1959	4,431	3,217	+ 7.8	72.6
1960	4,431	3,697	+14.9	83.4
1961	4,431	3,946	+ 6.7	89.1
1962	4,299	4,112	+ 4.2	95.6
1963	4,299	4,006	— 2.6	93.2
1964	4,523	4,620	+15.3	102.1
1965	4,739	5,403	+17.0	114.0
1966	5,609	5,851	+ 8.3	104.3
1967	5,580	5,451	— 6.8	97.7
1968	5,640	6,038	+10.8	107.1
1969	5,829	5,971	— 1.1	102.4
1970	5,769	6,220	+ 4.2	107.8
1971	5,769	6,580	+ 5.8	114.1
1972	5,769	6,578	—0.03	114.0
1973	5,769	6,100	— 7.3	105.7
1974	6,741	6,587	+ 8.0	97.7
1975	7,209	5,967	— 9.4	82.8

The current demand for cigarettes appears to have been adequately met by indigenous production.

Demand Projections and Licensing Policy

According to the Guidelines for Industries for 1976-77, demand for cigarettes is expected to go up to 10,000 crore pieces in 1978-79, for which a capacity of 15,000 crore pieces is required. At present, there are 18 units engaged in the production of cigarettes with a licensed capacity of 10,259 crore pieces. Besides, capacity of the order of 6,330 crore pieces is covered by licences and letters of intent. Thus, the total sanctioned capacity stands at 16,589 crore pieces. As this is adequate to meet the demand, no additional capacity is likely to be approved to the industry in the near future.

Exports

Exports of cigarettes during the sixties were rather small except for the years 1964-65 and 1965-66. This was because of the long-standing prejudice against Indian cigarettes. Smokers in foreign countries carried an impression that Indian cigarettes were not suitable for them, but this impression is gradually being erased by systematic and persistent marketing efforts. Cigarette exports, which aggregated Rs. 3 lakhs in 1961-62, rose sharply to Rs. 118.7 lakhs in 1965-66. Thereafter, the exports declined till 1969-70, when the exports of cigarettes amounted to Rs. 2.7 lakhs only. Since 1969-70, cigarette exports have been steadily going up excepting in 1973-74, when there was a decline in cigarette exports. In 1975-76, cigarette exports totalled Rs. 3.40 crores.

Among the important consumer countries of Indian cigarettes are Saudi Arabia, Kuwait, Hong Kong and the U.S.S.R. Well over a lakh kgs. of cigarettes were supplied by India to the Soviet Union during 1975-76, fetching about Rs. 3.34 crores out of the total of Rs. 3.40 crores. Besides the U.S.S.R., exports were directed to Dubai, Bangladesh, Bahrain, Nepal and Afghanistan in 1975-76.

TABLE No. 2

Exports of Cigarettes

Year	Quantity ('000 kgs.)	Value (Rs. lakhs)
1961–62	30.3	3.0
1962–63	11.8	1.3
1963–64	64.5	6.2
1964–65	1,131.9	94.2
1965–66	1,700.9	118.7
1966–67	530.8	49.1
1967–68	163.1	23.7
1968–69	18.3	3.3
1969–70	28.3	2.7
1970–71	186.8	30.0
1971–72	1,179.0	157.1
1972–73	1,073.9	167.5
1973–74	839.7	141.2
1974–75	120.1	304.0
1975–76	138.0	339.8

Hazards of Smoking

Despite the vigorous anti-smoking propaganda and the medical warnings of the danger of cancer by excessive smoking, world production of cigarettes and the number of smokers have been increasing. The charm of Lady Nicotine seems to be really irresistible to persons who continue to smoke despite warnings of health hazards.

Tobacco smoke is a very complex mixture of gases, liquids and particles of matters many of which are formed during combustion or burning of the cigarette. It has been estimated that there are two hundred or three hundred different kinds of chemical compounds in tobacco leaves. During burning, perhaps, a thousand or more products are developed. Not all of these compounds have been identified and their effects on living systems determined,

but many of them are known to be highly toxic. Some sixteen have been identified as carcinogens or chemicals capable of stimulating the development of cancer. Fourteen alkaloids have also been isolated. As far as present knowledge goes, nicotine is the most important of these because of its interference with physiological functions.

Among the gases found in the tobacco smoke is the deadly carbon monoxide. It has a stronger attraction for the haemoglobin of human red blood cells than has the oxygen, which is so vital to the blood. Therefore, when blood circulates through the lungs to take up its quota of oxygen to carry to the cells, the carbon monoxide present in the smoke-polluted air attaches itself to haemoglobin molecules and usurps the place that should have been taken by a molecule of oxygen. Thus, the level of oxygen in blood is lowered. In close areas, the level of carbon monoxide may rise high enough to cause headaches and other harmful effects.

In order to apprise the public that the smoking of cigarettes is injurious to their health, the Cigarette (Regulation of Production, Supply and Distribution) Act, 1975, was passed, which came into force from the 16th August 1975. Under this Act, all cigarette packets and advertisements must carry the health warning: 'Cigarette smoking is injurious to health'. Any failure to comply with this provision would entail punishment for a term which may extend to three years, or with fine which may extend to Rs. 5,000 or with both. However, the provisions of this Act are not applicable to any cigarettes which are exported, except in the case of those countries where the law in force requires that the same or similar warning shall be specified on each package of cigarettes.

Cigarette Industry : Profitability

A study of the finances of five cigarette manufacturing companies which accounted for 95 per cent of the total production in 1975, shows that the profitability of the

TABLE No. 3

Cigarette Industry : Profitability Ratios

Name of the Company	Gross Profits as % of Net Sales					Profits after Tax as % of Net Worth					Profits after Tax as % of Total Assets				
	1970–71	1971–72	1972–73	1973–74	1974–75	1970–71	1971–72	1972–73	1973–74	1974–75	1970–71	1971–72	1972–73	1973–74	1974–75
1. Vazir Sultan Tobacco Co. Ltd.	8.0	7.0	7.0	7.0	7.0	17.7	16.2	16.8	15.3	13.7	10.0	8.0	9.0	7.0	8.0
2. I.T.C. Ltd.	8.0	8.0	6.0	7.0	5.0	9.7	10.6	6.2	9.7	9.7	7.0	7.0	4.0	5.0	5.0
3. Godfrey Phillips India Ltd.	8.0	7.0	6.0	4.0	3.0	24.1	17.3	11.0	4.9	4.8	7.0	5.0	3.0	1.0	2.0
4. Golden Tobacco Co. Ltd.	8.0	8.0	6.0	4.0	4.0	14.8	9.3	3.6	4.4	1.6	5.0	4.0	1.0	1·0	1.0
5. National Tobacco Co. of India Ltd.	9.0	5.0	4.0	3.0	3.0	4.6	2.9	–4.8	–21.3	–38.8	2.0	1.0	– 2.0	– 5.0	– 9.0
Average	8·2	7.0	5.8	5.0	4.4	14.2	11.3	6.6	2.6	– 1.8	6.2	5.0	3.0	1.8	1.4
All-Industries	10.3	10.0	9.5	10.5	N.A.	11.2	10.5	10.3	11.9	N.A.	4.3	4.0	3.9	4.4	N.A

N.A. = Not Available

Sources : (i) The Stock Exchange Official Directory,

(ii) The Reserve Bank of India Study of Finances of Medium and Large Public Limited Companies (RBI Bulletin, September 1975).

industry is none too enviable. From 1970-71, not only all the profitability ratios have been maintaining a declining trend, but most of the ratios have been lower than those for "all industries". However, some of the companies enjoyed a higher profitability than others. Thus, the profits after tax as percentage of net worth, and as percentage of total assets of the Vazir Sultan Tobacco Company Limited for all the years have been much above the average for the industry and compare favourably with those for "all industries."

The reason for the low profitability of the industry in general has to be traced to the high cost of production, taxation and the consumers' resistance to costly cigarettes of higher quality. However, the Vazir Sultan Tobacco Company Ltd., which specialises in popular varieties like "Charminar", is able to maintain better profitability.

The following table regarding the analysis of cost structure of the industry brings into sharp focus the declining profitability of the industry.

TABLE No. 4

Cigarette Industry : Cost Structure
(Percentages to Total Value of Production)

	1970-71	1971-72	1972-73	1973-74	1974-75
Raw Materials	27.21	26.46	28.38	24.28	27.19
Wages & Salaries	4.79	4.51	5.04	4.59	4.12
Direct Manufacturing Expenses@	60.02	61.72	61.74	64.98	63.62
Operating Expenses*	4.14	4.28	2.90	3.67	3.44
Operating Profit	3.84	3.03	1.94	2.48	1.63
	100.00	100.00	100.00	100.00	100.00

@ Break-up not available.
* Include (i) administration and general expenses,
(ii) selling agents' commission,
(iii) debenture interest,
(iv) other interest,
(v) depreciation and
(vi) manufacturing agents' remuneration.

Source : The Stock Exchange Official Directory.

Outlook for the Cigarette Industry : An Assessment

In the context of anti-smoking propaganda by the medical world and the none-too-encouraging support from the Government, it is worthwhile assessing the future prospects of the cigarette industry in India.

The steadfast devotion of the evergrowing smoking fraternity has ensured the expansion of the industry through prosperity and depression. Even in the face of steep taxes and high prices, the faithful have remained undaunted.

Per capita consumption of cigarettes in India at 108 per annum (or just 9 cigarettes per month) is the lowest in the world as against 2,500 in the U.S. and 2,100 each in the U.K. and Japan, 850 in Malaysia, 300 in Pakistan (before formation of Bangladesh) and 240 in Sri Lanka. It is estimated that only less than 5 per cent of the total population consumes cigarettes. Therefore, further growth of the industry is considered as inescapable as the need for relaxation and diversion for an individual.

Though the cigarette industry has a fairly comfortable future spread before it, the role of certain determinants having a direct bearing is discussed below :

(i) **Increase in Population :** In India, smoking is largely confined to the male population, female smokers being negligible. Needless to mention, the entire male population is not cigarette smokers. However, the increase in male population is bound to increase the demand for cigarettes.

(ii) **Per Capita Income :** Generally, the demand for cigarettes is directly proportional to the disposable income of the population in the country. Therefore, as per capita income of the population goes up, the demand

for cigarettes is expected to rise in future. In addition, the continuous process of urbanisation and the fact that cigarette smoking is considered as a status symbol promise fairly good prospects for the cigarette industry in coming years.

(iii) **Incidence of Taxation :** Tobacco and tobacco products are an important source of revenue and contribute about Rs. 280 crores per year to the national exchequer. The excise duty on these items is estimated to constitute about 50 per cent of the ultimate consumer price of these products. Hence, the fiscal policy of the Government is a major determinant of the indigenous demand for tobacco products, though the habit of smoking by the consumers may continue to win over them and force them to go in for cigarettes even at higher taxes/prices.

(iv) **Competition from Bidis and Other Tobacco Products :** No reliable data are available on the bidi industry, which largely operates as a cottage industry. It is estimated that approximately 120 crore pieces of bidis are manufactured per day all over India and as much as 80,000 tonnes of tobacco valued at about Rs. 60 crores are consumed every year by the industry. However, according to the forecast of demand for tobacco products by the Directorate of Tobacco Development, bidi consumption, though expected to rise, is estimated to increase at a much slower pace than cigarettes which are bound to become the more fashionable smoke. Therefore, there is no threat of competition to cigarettes from bidi and other substitutes.

(v) **'Synthetic' Tobacco :** Development of 'synthetic' tobacco in advanced countries and the ban of high 'tar' brands might hit the world cigarette industry in the near future. However, the synthetics may not pose any immediate problem to the cigarette industry in India as the development of synthetics would take some time before they are introduced into the market for regular commercial purposes.

(vi) Diversification of Production : World Trend : The latest thinking among leading tobacco companies in western countries is to diversify their range of activities and not to rely merely on the growth prospects for the cigarette industry. This tendency to search for new pastures has already influenced some of the leading Indian companies to branch out into diverse fields not necessarily related to the cigarette industry.

Besides, cigarette manufacturing is considered a non-priority industry. In the absence of any special subsidy or incentive provided by the Government, the industry has to plan its future solely on the basis of its own resources. The choice of the particular area of activity for diversification will depend on such factors as the size of the company, financial resources at its command and the managerial expertise available within the organisation. While a large cigarette company like the I.T.C. Ltd. has entered the hotel industry and has plans to set up trawler building yards for the rapidly expanding fishing industry, the second largest unit (Vazir Sultan Tobacco) is reported to have plans to undertake the manufacture of processed leather and leather goods with completely indigenous technology. Other small companies have less ambitious schemes and propose to set up factories for cotton ginning and oil extraction.

Conclusion

The smoking fraternity has so far ensured the growth of the cigarette industry through prosperity and depression and the medical and statutory warning that smoking is injurious to health has had very little impact on curbing cigarette consumption. The leaders in the cigarette industry would appear to be getting ready for meeting the contingency arising out of restrictions on cigarette smoking on medical grounds. Tobacco is possibly the most democratic of all luxuries. It is a rich man's solace and a poor man's comfort. Cigarette is an evergreen product and most popular among the consumer items. With the increase

in population, per capita income and growing urbanisation, the industry can look forward confidently for a good future. The country provides a good raw material base. The declining profitability of the industry witnessed in recent years is likely to be a temporary phenomenon. The entry of some Indian tobacco companies into hotel and fishing industries is reflective of the world trends. Of late, the Union Government has been encouraging production of tobacco with a view to increasing exports. Since the export of tobacco in the form of cigarettes will fetch higher unit value than unmanufactured tobacco, it would be worthwhile considering larger production of cigarettes solely for the purpose of export as the required technology is already available indigenously.

Current Topics

Cotton Situation

Cotton is the oldest of all fibres used by man. Even though the importance of cotton has been diminishing with the advent of man-made fibres, they are unable to oust cotton completely due to its cheapness, texture and other qualities. The important cotton producing countries in the world are Argentina, Brazil, China, Egypt, India, Iran, Mexico, Pakistan, Peru, Sudan, Colombia, Turkey, the U.S.A. and the U.S.S.R. In India, cotton is grown in Gujarat, Maharashtra, Punjab, Haryana, Madhya Pradesh, Karnataka, Rajasthan, Andhra Pradesh and Tamil Nadu. Cotton plays an important role in the Indian economy. About 15 per cent of the country's total labour force of 190 million is connected in one way or other with the production of cotton or its manufactures.

Production : Erratic Trend

As cotton is grown mainly under rainfed conditions in India, its output depends largely on the vagaries of the monsoon. Besides rainfail, pests and diseases also influence the trends of cotton production in the country.

Even though the output of cotton rose from 55.6 lakh bales in 1969-70 to 70.8 lakh bales in 1974-75, the trend in production has been marked by wide fluctuations. This is evident from the following table :

TABLE No. I

Cotton : Area and Production

Year (September-August)	Area ('000 hectares)	Production (Lakh bales of 170 kgs. each)
1969-70	7,731.2	55.64
1970-71	7,605.1	47.63
1971-72	7,799.7	69.50
1972-73	7,678.6	57.35
1973-74	7,574.1	63.09
1974-75	7,620.6	70.80

Cotton : 1975-76 Season

The 1975-76 cotton season started on a promising note and the production was expected to be around 75-80 lakh bales (of 170 kgs. each), breaking all previous records. But, actually, when the season ended, it left everybody disappointed. The production estimate of 80 lakh bales was scaled down drastically on account of various reasons to around 65 lakh bales.

As a result, prices of cotton fluctuated violently during the 1975-76 season. At the beginning of the season, i.e., in October 1975, there was a sharp fall in the prices of cotton due to bright prospects of standing cotton crop, the bumper crop harvested during the 1974-75 cotton season and the decision to import two lakh bales of cotton from Pakistan. But as the season advanced, the prospects of a record crop diminished and the prices of cotton started picking up. Further, the reports that the industry's consumption would increase to 75 lakh bales during the 1975-76 season also helped the upward trend in cotton prices. As shortage of cotton was feared, mills were rather in a hurry to buy as much cotton as possible to meet their current and future requirements and this further accen-

tuated the rising trend. Short and medium staple varieties spurted up by as much as Rs. 1,000 per candy between October 1975 and June 1976 and long staple varieties rose by as much as Rs. 1,500. In order to tide over the crisis and to improve the supply position, the Government permitted import of cotton worth Rs. 115 crores. The Textile Commissioner also stipulated the quantity of stocks that could be held by mills to prevent further rise in prices. Meanwhile, the new crop cotton season commenced (September 1976-August 1977) amidst indications of an integrated national cotton and textile policy by the Union Government. Assuming favourable weather conditions in November-December for the late crop, production is likely to be about 75 lakh bales.

Cotton Prices : Fluctuations

Broadly reflecting the uneven trend in the production of cotton, the price of cotton has also fluctuated violently from year to year. The index number of wholesale prices of raw cotton (1961-62=100) moved steadily upward from 171 in 1969-70 to 222 in 1971-72. Thereafter, it declined to 176 in 1972-73. The downward trend was reversed in 1973-74 and the index moved to 277. The year 1974-75 witnessed a further sharp rise in the prices of cotton and the index rose to 343. Due to the bumper crop in the 1974-75 season and prospects of an equally good crop for the 1975-76 season, the prices declined and the index stood at 278 in June 1975. The index showed a further decline to 259 in November 1975. However, from December 1975, the downward trend noticed earlier was reversed and the index rose sharply to reach the peak of 426 on July 17, 1976.

Cotton Prices : Measures to Ensure Stability

Thanks to the various measures initiated, further rise was arrested and the index stood lower at 416 in September 1976. The Reserve Bank of India raised the margins

on advances against cotton and kapas. The maximum cotton stocks that mills can hold have been revised downward. With effect from August 21, 1976, the trade is also not allowed to hold stocks in excess of 50 per cent of the quantity held by it on June 30, 1976. This applies to all A and B class of cotton licence-holders, including the Maharashtra State Co-operative Marketing Federation. But the Cotton Corporation of India is exempted from the purview of this restriction. Further, the restrictions on the use of man-made fibres for the manufacture of cloth have been relaxed for four months ending November 1976. The Government has also permitted the import of 5 lakh bales of cotton.

Cotton Consumption : Rising Trend

The consumption of cotton by the mill sector has been rising steadily year after year. During the 1975-76 season, the consumption of cotton by mills is estimated at around 75 lakh bales (of 170 kgs. each). The trend in the consumption of cotton is given in the following table:

TABLE No. 2

Consumption of Cotton

(In lakhs of bales of 170 kgs. each)

Year	Indian	Foreign	Total
1971-72	59.2	8.1	67.3
1972-73	62.4	6.3	68.7
1973-74	69.8	3.0	72.8
1974-75	69.1	2.0	71.1

Foreign Trade in Cotton

For meeting the shortfall in domestic supplies, the Union Government has been arranging to import cotton as and when necessary. The country also exports cotton,

although of smaller magnitude. The following table shows the trends in India's foreign trade in cotton :

TABLE No. 3

India's Foreign Trade in Cotton

Year (September-August)	Imports		Exports	
	Quantity (lakh bales)	Value (crores of Rs.)	Quantity (lakh bales)	Value (crores of Rs.)
1969-70	9.65	113.0	2.19	15.2
1970-71	8.95	108.5	2.03	16.6
1971-72	7.89	101.7	2.45	21.7
1972-73	4.68	64.9	1.80	17.2
1973-74	1.90	37.3	3.67	40.4
1974-75	1.47	N.A.	0.96	12.5

N.A. =Not Available

Long-staple Cotton : Temporary Surplus

Production of long-staple cotton, which was only 6 per cent of the total cotton crop in 1950-51 rose to 36 per cent in 1973-74, thereby creating a surplus in that variety. As a result, the country has made a beginning in exporting this variety of cotton and in 1975, India exported 2 lakh bales of long-staple cotton to foreign countries. However, the unremunerative prices that ruled in 1974-75 in the midst of plenty forced many cotton growers to reduce the acreage planted under long-staple and extra long-staple cotton during 1975-76. Thus, the acreage under hybrid cotton declined to 8.68 lakh hectares in 1975-76 from 10.21 lakh hectares in 1974-75. In this background, the Agricultural Prices Commission (APC), in its report on the price policy for raw cotton for the 1976-77 season, has recommended a modest increase of 5 per cent in the support prices of different varieties of cotton. It is felt that such a revision

will ensure that in a year of bumper crop, the income of farmers does not fall unduly and their incentive for cotton production is not weakened. The Commission, therefore, recommended that the minimum support price for 320 F variety of kapas be increased from Rs. 210 to Rs. 220 per quintal. It also recommended that the prices of other varieties should also be raised by 5 per cent.

The Agricultural Prices Commission viewed with concern the fluctuations in cotton prices during 1975-76 and felt that wide variations in prices could be checked, to some extent, by open market purchases by the Cotton Corporation of India. So, it has suggested that the Cotton Corporation, which was confining its activities to the price support operations in time of plenty and to purchases on behalf of the National Textile Corporation, should also make purchases and sales at market prices. The stability in cotton prices is essential, both for the cultivators and the industry. Therefore, the Agricultural Prices Commission has suggested that the Cotton Corporation should be financially equipped to build up stocks of different varieties and effectively intervene in the market, when necessary.

It is estimated that the total consumption of cotton by the end of the Fifth Five Year Plan will be around 82 lakh bales, comprising 26 lakh bales of long-staple and extra-long-staple, 49 lakh bales of superior medium and medium staple and 7 lakh bales of short staple. Even though the target seems to be unattainable under the present conditions, if an integrated policy is adopted and more acreage is brought under high-yielding varieties, the estimated requirements can be met from the indigenous production. By proper planning and by introducing hybrid varieties, supported by proper and reasonable incentives to the agriculturists, the efforts can be directed towards the goal of self-sufficiency in cotton. It is also necessary to evolve a methodology which will help obtain reliable crop forecasts and estimates well in time and thus

remove uncertainty about the size of the crop that prevails in the market at present. In this context, the Government's decision to evolve a national plan for production, supply and distribution of selected essential commodities including cotton is very significant. It is hoped that such a plan will not only assure a fair return to cotton growers, but will also ensure availability of cotton at reasonable prices to mills and ultimately to consumers.

Legal Decisions

On Banking

Determination of Annual Value of Residential House—Rent could be Considered

Kashi Prasad Kataruka

vs.

Commissioner of Income-tax, Bihar

In the Patna High Court

Tax Case No. 222 of 1971

Contributed by S. R. Darekar

In this appeal, an interesting question was whether on the facts and in the circumstances of the case, the rent fixed by the Rent Control Act [Bihar Buildings (Lease, Rent and Eviction) Control Act 1947] could be taken into consideration for determination of the annual value of a residential house under Section 23 of the Income-tax Act 1961.

The assessee who owned a house used it for residential purposes. He showed the income from the house property at Rs. 1,500 for the assessment year 1968-69. The Income-tax Officer rejected the amount shown by the assessee and computed the income from the house property at Rs. 8,553. The Appellate Assistant Commissioner and the Tribunal also did not accept the amount shown by the assessee and hence the matter was referred to the High Court for its opinion. The asse-

ssee contended before the High Court that the building was situated within Patna Municipal Corporation area where the Rent Control Act was in force. The fair rent of the building had been fixed by the Rent Controller at Rs. 480 per month. The annual letting value, therefore, could not exceed the rate of rent which was fixed by the Rent Controller in accordance with the provisions of the Rent Control Act. He further argued that it was not open to any landlord to let the building out at a figure higher than the rate fixed by the Rent Controller, for, in the event of such transaction, the landlord would be attracting the penal provisions under the Act. As such, it could not be said that the inherent capacity of the hereditament to fetch profits was greater than that fixed by the Rent Controller.

Before considering the validity of the submission of the assessee, the High Court stated the principles underlying the fixation of annual letting value for the purposes of Section 23 of the Act. It observed that though the tax under the head "income from building" is a tax on income, it is well settled that it is not a tax upon rents but upon the inherent capacity of the hereditament to yield profit. If the owner of such properties should himself be in occupation of them, it by no means follows that he, in fact, derives from them an income equal to the annual value, but for the purposes of the statute, it is presumed that he does derive from them an income equal in amount to the annual value and the tax is assessed on such a presumed notional income. These were the established principles in regard to the valuation for the purposes of Section 23 before the various Rent Control Acts came into force in different States.

After the various Rent Control Acts came into force, one thing has become very clear, the High Court observed, that no landlord is permitted by law to receive anything more than the rate of fair rent fixed by the Rent Controller. It is on the basis of municipal valuation that the present rate of rent was fixed at Rs. 480 per

month. However, the High Court did not find any justification to hold a view that inherent capacity to fetch profit of a building is less when the building comes into use and occupation of the landlord for his residential purposes. The two decisions of the Supreme Court in the cases of Corporation of Calcutta vs. Padma Debi (AIR 1962 SC. 151) and Guntur Municipal Council vs. Guntur Town Ratepayers' Association (AIR 1971 SC. 35) to which they made a reference not only support the proposition that where fair rent has been fixed by the Rent Controller, it is not open to treat the profits which the property can fetch to be anything more than the fair rent fixed by the Rent Controller, but also go to support the principle that the hypothetical rent which may be presumed for the hereditament in question is its inherent capacity to fetch profit. It has always been presumed that municipal valuation afforded an indication as to the resonable annual letting value of building which could be rebutted only on the basis of other material evidence and in the abence of any such evidence, it is the only safe guide on the basis of which the annual letting value for the purposes of Section 23 could be fixed. Therefore, it was held that for determination of the annual value under Section 23, the rent fixed by the Rent Control Act could be taken into consideration.

(**Shri S. R. Darekar** is the Manager of the Services Banking Division at the Bank's Bombay Main Branch.)

Statistics

TABLE 1

SELECTED ASSETS AND LIABILITIES OF BANKS IN INDIA

(Rupees in crores)

	Position as on 24-9-1976	A Month ago 27-8-1976	A Year ago 26-9-1975
State Bank of India			
Aggregate Deposits :	3,840	3,769	3,020
Demand (Exclusive of inter-bank transactions)	1,566	1,547	1,308
Time (-do-)	2,274	2,222	1,712
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	2,734	2,702	2,077
Investments in Government Securities	961	947	774
Associate Banks			
Aggregate Deposits :	865	861	707
Demand (Exclusive of inter-bank transactions)	365	354	296
Time (-do-)	500	507	411
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	653	658	521
Investments in Government Securities	170	166	133
All Scheduled Commercial Banks			
Aggregate Deposits:	15,942	15,700	13,070
Demand (Exclusive of inter-bank transactions)	6,283	6,245	5,400
Time (-do-) ..	9,659	9,455	7,670
Advances (Excluding due from banks):			
Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	11,724	11,679	9,058
Investments in Government Securities	3,812	3,651	3,119

TABLE II

SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	March 1976		March 1975	
	State Bank of India	Associate Banks	State Bank of India	Associate Banks
No. of Offices	3,866	1,830	3,436	1,735
Advances				
to Agriculture:				
(i) Direct				
No. of Accounts	8,53,538	1,69,567	5,93,883	1,18,551
Outstandings	187	53	127	37
(ii) Indirect				
No. of Accounts	17,349	3,589	8,871	3,263
Outstandings	65	22	60	16
to Small Scale Industries:				
No. of Units	86,722	39,882	72,156	35,023
Outstandings	307	85	293	78
to Small Business:				
No. of Accounts	1,58,488	50,370	1,09,727	32,695
Outstandings	58	15	43	11
under Differential Interest Rates Scheme:				
No. of Accounts	2,08,372	49,348	1,14,573	28,942
Outstandings	9	2	5	1
for Exports:				
Outstandings	227	45	183	25

TABLE III

SELECTED ECONOMIC INDICATORS

	Position as on 24-9-1976	A Month Ago 27-8-1976	A Year Ago 26-9-1975
	(Amounts in rupees crores)		
1. Money Supply with the Public ..	13,615	13,524	11,927
(a) Currency with the public ..	7,123	7,055	6,345
(b) Deposit money with the public	6,492	6,469	5,582
	July 1976	June 1976	July 1975
2. Foreign Exchange Reserves			
(a) SDRs* ..	18.96	18.96	22.63
(b) Gold ..	182.52	182.53	182.53
(c) Foreign Exchange ..	1,945.03	1,751.18	554.05
3. Money Rates	(Per cent per annum)		
(a) Bank Rate ..	9	9	9
(b) State Bank of India Advance Rate ..	14	14	14
(c) State Bank of India Hundi Rate	14-16	14-16	14-16
(d) Call Money Rate (Bombay) ..	10.7	10.2	6.5
(e) Bazar Bill Rate (Bombay) ..	21	21	21

*In crores of SDRs.

TABLE III

SELECTED ECONOMIC INDICATORS (Contd.)

	June 1976	May 1976	June 1975
4. Index Number of Industrial Production (1970=100)			
General Index	128.3	132.5	108.3
	Week ended 25-9-1976	Week ended 28-8-1976	Week ended 27-9-1975
5. Index Number of Wholesale Prices (1961-62=100)			
All Commodities ..	313.4	311.3	306.0
Food Articles ..	345.5	343.5	358.9
Liquor & Tobacco	341.6	336.0	319.2
Fuel, Power, Light and Lubricants ..	370.9	370.7	355.2
Industrial Raw Materials ..	323.4	317.3	256.0
Chemicals ..	286.5	285.6	325.5
Machinery and Transport Equipment ..	258.3	258.4	262.9
Manufactures ..	265.3	264.1	253.1
	June 1976	May 1976	June 1975
6. Consumer Price Index Number for Industrial Workers—All-India (1960=100) ..	291	290	328
7. Foreign Trade	(Rupees in crores)		
Total Imports ..	274.1	341.7	435.4
Total Exports (including re-exports) ..	316.9	373.7	269.3

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Role of Commercial Banks in the Development of Underdeveloped Areas of Eastern Region*

P. C. D. Nambiar

I am thankful to the National Forum of Small and Medium Industrialists for inviting me to participate in this important Seminar. I propose to take this opportunity to throw some light on the 'Role of Commercial Banks in the Development of Underdeveloped Areas of Eastern Region.'

It is now realised by commercial banks that in the development of backward regions they have a much wider role to play than just extending credit to borrowers who approach them for the purpose. The role of the commercial banks in this regard crystallised with the introduction of the lead bank scheme in December 1969. The lead

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* Text of the address at the Seminar on Financial and Fiscal Problems of the Underdeveloped Areas of Eastern Region held at Gauhati on the 19th September 1976 under the auspices of the National Forum of Small and Medium Industrialists.

bank scheme resulted from the area approach to banking development recommended by the Gadgil Study Group of the National Credit Council in 1969. In the report of the Study Group, it was brought out that commercial banks had not paid sufficient attention to the banking needs of rural areas in general and backward areas in particular. There were 13 districts in 1967 without any commercial bank office. Needs of credit for agriculture, small scale industry and cottage industry as also retail trade and other services sector were neglected both because of the lack of banking offices in rural areas as also because of a lack of rural orientation of the banking system. The Study Group, therefore, recommended that nationalised banks may be given specific responsibilities for the development of various districts. The purpose of this area approach was that the banks could survey the banking potential, establish offices and cultivate a rural bias in their business. For this rural bias, the Study Group thought that co-ordination of the banking system with the co-operative credit structure as also the developmental agencies of the Government would be essential.

The recommendations of the Gadgil Study Group were examined by a group of bankers under the direction of the Reserve Bank of India. They endorsed the area approach and recommended that specific districts be allotted to State Bank of India, its seven Associate Banks, 14 nationalised banks and three large private sector banks. The Reserve Bank of India introduced the lead bank scheme in December 1969. It was laid down that the banks to whom the lead districts were allotted, should conduct surveys to estimate credit gaps and to identify growth centres where commercial bank offices could be opened.

All the districts in the four States in the Eastern Region, namely, Assam, Bihar, Orissa and West Bengal and the Union Territory of Andaman and Nicobar Islands have been allotted to various banks as follows :

State Bank of India	..	12
Central Bank of India	..	17
Punjab National Bank	..	7
Bank of India	..	7
United Bank of India	..	13
United Commercial Bank	..	14
Andhra Bank Ltd.	..	1

The lead banks have completed impressionistic surveys of their lead districts in the States of Assam, Orissa and West Bengal, and the Union Territory of Andaman and Nicobar Islands, whereas in Bihar, majority of the districts have been surveyed. These survey reports contain a vast amount of statistical and factual information and in some cases, the sectors and activities which need finance have been identified. However, in general, the survey reports do not provide specific action plans which can be immediately taken up for financing by the financial institutions.

The survey reports pointed out that there was lack of adequate branch network in the districts and contained a list of growth centres for immediate opening of commercial bank offices. At the time of nationalisation, the Eastern Region had 954 bank offices. As at the end of June 1976, the number of bank offices had increased to more than 2,900. Keeping in view the predominently rural character of the region, the scheduled commercial banks from nationalisation up to the end of June 1976, opened 46 per cent of the new offices in rural areas, 25 per cent in semi-urban areas and 29 per cent in urban/metropolitan areas.

In spite of the substantial progress made in branch expansion by commercial banks, population per bank office is above the national average in a majority of the districts in all the States in the region. It is expected that branch expansion in this region will gather momentum under the rolling plan of branch expansion of the commercial banks.

Deposits of scheduled commercial banks in the region excluding Calcutta city increased from Rs. 356 crores

at the end of June 1969 to Rs. 1,209 crores at the end of June 1975, an increase of 240 per cent, i.e., more than the progress recorded in the country as a whole, viz., 171 per cent. State-wise, the most impressive increase during the above period was recorded in Orissa, viz., 252 per cent, followed by Bihar with 239 per cent and Assam with 207 per cent. West Bengal excluding Calcutta city registered an increase of 200 per cent. As regards Calcutta city, deposits increased from Rs. 522 crores to Rs. 1,288 crores during the period, i.e., an increase of 147 per cent.

In respect of bank credit, the increase was 392 per cent for Bihar, 388 per cent for West Bengal excluding Calcutta, 283 per cent for Orissa and 259 per cent for Assam as against the all-India rate of increase of 153 per cent. After taking into account the investments made by banks in State Government securities and bonds and debentures of State-associated bodies, the credit plus investments/ deposit ratio was 78.1 per cent in Bihar, 122.2 per cent in Orissa and 71.5 per cent in West Bengal as at the end of June 1975. The all-India average was 87.3 per cent. The relative figure for Assam as at the end of December 1974 was 115.4 per cent. Thus, the position is quite satisfactory in the States in the eastern region indicating that there is no diversion of funds from these States.

The lead bank scheme envisages preparation of banking plans for the district as a whole. The planning strategy that the country has adopted, more particularly in the Fourth and Fifth Plans, involves planning at the district level. District is the lowest administrative unit from the point of view of resource mobilisation and production programmes. The technique of credit planning or preparation of district banking plan was not, however, evolved when the lead bank scheme was inaugurated. At this point, it would be pertinent to mention that extension of credit involves a detailed appraisal of the schemes to be financed and a follow-up of credit. In a new area which is rural, expansion of bank credit requires a prior proof of the possibility and feasibility of such increase. The economic

potential of the area must justify evolving of schemes for financing specific sectors. This involves a depth study of the present structure of the economy and the future possibility of its growth. The Study Groups on Working of the Lead Bank Scheme set up by the Reserve Bank of India in August 1975 have recommended that all the lead banks should undertake in their lead districts such depth studies and formulate a set of technically feasible and economically viable bankable schemes which can be immediately taken up for financing by the financial institutions operating in the district. The Study Groups have recommended that the lead banks having necessary resources may even prepare comprehensive credit plans comprising such schemes. The State Bank of India expects to complete credit plans for all its 12 lead districts in the region by the end of this year.

It will also be necessary for commercial banks in the region to make appropriate organisational arrangements to implement the credit plans or the bankable schemes prepared by the lead banks. For the purpose of co-ordination with other financial agencies and Government authorities, constitution of District Consultative Committees was recommended under the lead bank scheme. These Committees have accordingly been constituted in most of the lead districts.

The meetings of the Committees are convened by the lead banks concerned at which important matters relating to the banking development, methods of exchanging information about intending borrowers and lending to priority sectors, identification of bankable schemes, problems arising out of financing priority sectors, co-ordination among the various credit agencies operating in the district and allotment of unbanked identified centres are discussed. The meetings are generally held at least once in a quarter.

If these Committees have to be made effective, all the participating banks in the Committee must co-operate

with the lead bank and voluntarily undertake the responsibilities commensurate with their capacities.

In addition to identifying bankable schemes, the lead banks and other commercial banks will have to go a step ahead and even identify the potential borrowers. For this purpose, they may try to identify potential promoters in their respective area of operation and train them with well structured courses, which would motivate them as entrepreneurs. The State Bank of India and a few other banks have already taken steps in this direction, but these need to be intensified. I may mention that, as far as possible, units to be located in backward areas should use local raw materials and the technology should be of an intermediate nature so that the local skills are used in the promotion and operation of these projects. This is important. Wholesale import of foreign technology and expertise will lead to disastrous effects in many ways —firstly, transfer of alien technology will prevent the process of integration, amalgamation and adaptation of the local artisans to the new technology, thereby expediting the demise of centuries old indigenous and traditional skills without substantially improving or ameliorating their lot. Secondly, by being relatively more capital intensive and labour selective, it would produce the same or larger volume of goods by lesser amount of labour leading to massive unemployment in an already under-employed and underprivileged society.

Lastly, substitution of local raw materials with foreign and synthetic ones will substantially depress the economic environment of the areas which would, by and large, as is the case in all underdeveloped areas, be dependent on the consumption of their raw materials in a large way. It has been our experience that indiscriminate switch-over to modern technology merely produces isolated pockets of affluence amidst a vast sea of poverty, as the economy of the surrounding area is not immediately integrated. The backward districts generally have better prospects for establishing agro-based industries. Processing industries in

bajra, wheat, rice, jowar, maize, oilseeds, tobacco. etc., could also be located in these districts. Subject to availability of power, some foot-loose industries such as manufacture of plastic material, dyes and dyestuffs, automobile components and accessories, electric lamps, stationery, etc., could also be developed in these districts.

As regards the development of agriculture in the region, the share of Eastern Region in the total credit made available by commercial banks in the agricultural sector continues to be comparatively low.

Some of the basic problems which may be easily identified in this context are :

(i) Lack of infrastructural facilities in the rural areas such as roads, electricity, storage, transport, marketing facilities, etc.

(ii) The periodical devastations caused by floods in some parts of the eastern States have also hindered the progress of bank credit for agriculture in these States.

(iii) Inadequate co-ordination between the State Governments and the banks for drawing up development plans for the agricultural sector and implementation of such plans with financial support from the banks.

(iv) Alarming growth of overdues in the co-operative sector in most of the States.

(v) Simultaneous lending operations by the State Governments and the psychosis of default created by the lack of will on the part of some of the State Governments for realising overdue loans from the recalcitrant farmers.

(vi) Lack of adequate extension work among the farmers resulting in cultivators' persistent aversion to improve agronomic practices.

Besides the aforesaid problems, the banks have their own difficulties in achieving the goal of rapid expansion of agricultural credit in the eastern States mainly due to inadequate coverage of branches in the rural areas and lack of adequate trained personnel for manning such offices. Most of the banks have taken time or have still to build up technical cadres for planning and implementation of the agricultural projects taken up by them for financing in the different areas, for maintaining the necessary follow-up over the end-use of funds made available to the farmers and realising the loans as per the agreed repayment programmes. As for the State Bank of India, we have 42 Agricultural Development Branches in the region and plans to open 9 more. We have adopted 1,727 villages and 194 co-operative credit societies in the Eastern Region. Through these and our other branches we have financed 1,82,730 accounts with outstandings aggregating Rs. 34.76 crores.

As the commercial banks generally depend on the Agricultural Refinance and Development Corporation for refinance facility in respect of term lending projects taken up by them, it is necessary to prepare such projects considering the norms laid down by the Agricultural Refinance and Development Corporation and also incorporating the requisite technical data for enabling the Corporation to assess the technical feasibility and economic viability of the projects.

In some of the eastern States like Bihar and Assam, for example, difficulties are still being experienced in the formulation of area development schemes for submission to the Agricultural Refinance and Development Corporation mainly because of the absence of adequate data regarding availability of underground water. The Ground Water Directorates in most of these States do not have the

required staff for conducting surveys regarding ground water availability and supplying the necessary data to the banks. This has considerably slowed down the pace of progress in the matter of formulation of minor irrigation and other allied schemes and their implementation in these States.

While the problems mentioned hitherto are quite formidable, all the State Governments have since initiated some steps for their elimination in order to create a climate in which commercial banks may intensify the efforts for pumping in credit for the development of agriculture through implementation of worthwhile and bankable schemes. In this context, one could mention particularly the schemes of regulated market development taken up in Bihar, West Bengal and Orissa under the World Bank Project and the Central Sectors Scheme, scheme of financing agriculture in Assam through the newly constituted New Gaon Panchayat Level Societies, a number of minor irrigation (including dug wells), land shaping and land development as well as soil conservation schemes taken up by the State Bank of India and other banks in Orissa with refinance from the Agricultural Refinance and Development Corporation, the Comprehensive Area Development Projects proposed to be taken up in West Bengal for integrated development of agriculture and allied agricultural activities, rural industry and marketing facilities.

I have endeavoured to describe in brief the role of commercial banks in the development of the underdeveloped areas of the Eastern Region. It must have been noticed that commercial banks have so far discharged their responsibility in this region quite satisfactorily, but they need to do much more so that the benefits of their efforts percolate even to the weakest of the weaker sections of the society. I am sure, commercial banks will rise to the occasion and pool all their resources to meet the challenging task. In their efforts, however, they will require the full co-operation of the Government authorities and other financial institutions.

While concluding, I may assure that we, in the State Bank of India, have taken upon ourselves this stupendous task with single minded devotion. As I said earlier, all our credit plans will be completed and launched by the end of the year. Our credit plans cover three sectors of the economy, namely, agriculture and allied activities, industry and services sectors. Bankable schemes in all these sectors, considering their mutual linkages, will be included in these credit plans. In addition to this, we are pursuing a vigorous branch expansion programme to enable us to cover many more prospective and unbanked growth centres. We have a Technical Consultancy Cell at our Local Head Office at Calcutta, where trained experts give guidance and advice to entrepreneurs and industrialists on various problems facing them. Similarly, we have posted senior and experienced bank officials as Development Managers to take care of the developmental needs of large and small industries as also agriculture. Thus, we are geared to finance all viable schemes that fall within the purview of commercial banks.

Non-Residents and Indian Tax Laws

S. R. Darekar

Residential status of an assessee is one of the main deciding factors of incidence of Indian taxation. Generally speaking, the incidence of tax is the highest in the case of assessees who are residents and ordinarily residents, lower in the case of assessees who are residents but not ordinarily residents and the lowest in the case of non-residents. For the purpose of income-tax, the assessees are divided into two categories: (1) resident in India and (2) non-resident. Individuals and Hindu undivided families who are resident in India are again classified as (a) ordinarily resident and (b) not ordinarily resident. The scope of this article is mainly confined to the assessees who are resident but "not ordinarily resident" and non-resident. It is proposed to discuss as to how the assessees who become non-resident by virtue of their stay abroad for a certain period would be affected by various taxation laws. Although ordinarily resident assessees are not liable to pay additional taxes in India, non-resident assessees are entitled to claim exemptions provided in the Income-tax Act. The residence is determined with reference to each previous year and not the

assessment year. An assessee may have different previous years in respect of different sources of income. It is, therefore, provided that if a person is resident in India in a previous year in respect of any source of income, he will be deemed to be resident in India in the previous year in respect of each of his other sources of income. The residential status of an assessee depends upon the actual number of days that a person has stayed in India during the relevant previous year and also the preceding years.

INCOME - TAX

Who are Non-residents ?

In order to know which individual assessee can be called non-resident, one must know who can be called a resident assessee. An individual is treated as resident in India under Section 6(1) of the Income-tax Act in any previous year, if he satisfies any of the following three conditions :

(i) he was in India in that year for a period or periods aggregating in all 182 days or more ;

or

(ii) maintained or caused to be maintained for him a dwelling place in India for a period or periods aggregating in all 182 days or more in that year and had been in India for 30 days or more in that year ;

or

(iii) having been in India for a period or periods aggregating in all 365 days or more during the four years preceding that year and had been in India for 60 days or more in that year.

An individual who satisfies any of the conditions mentioned above is treated as resident in India. An individual

who does not satisfy any of these three conditions is treated as "non-resident" in India in the relevant previous year. If an assessee is continuously out of India during the whole of a year, he must be treated as non-resident in that year.

Further, in order to become an "ordinarily resident", he must satisfy the following two conditions :

(i) he should have been resident in India continuously for nine out of the ten previous years preceding the previous year in which he was resident; and

(ii) he should have been in India for a period or periods aggregating in all 730 days or more during the seven years preceding that previous year. If he does not fulfil any of these two conditions, he will be treated as "not ordinarily resident."

In other words, it is sufficient in order to claim the status of being "not ordinarily resident", if the residence in India is for less than nine years out of the preceding ten years and the aggregate period of the assessee's physical presence in India during the seven years preceding the relevant accounting year does not exceed 729 days. Under the Income-tax Act, only an individual and a Hindu undivided family and no other assessee can be "resident and ordinarily resident."

The chargeability of income depends upon the nature of residence. The incidence of tax on the three categories of tax payers is as follows :

Resident and Ordinarily Residents : Tax Implications

Person who is resident and ordinarily resident is charged on :

(a) income received or deemed to be received in India in the accounting year, the date or place of its accrual being immaterial;

(b) income which accrues or arises or is deemed to accrue or arise in India during the accounting year, the date or place of its receipt being immaterial;

(c) income which accrues or arises outside India during the accounting year, even if it is not received in or brought into India.

Resident but Not Ordinarily Resident

Person who is resident but not ordinarily resident is chargeable in respect of all the three types of income enumerated above in the case of ordinarily resident, but he enjoys exemption of tax in respect of income accruing outside India unless it is derived from a business controlled in or a profession or vocation set up in India or unless it is deemed to accrue in India or is received or deemed to be received in India.

Non-residents

Person who is non-resident in India in an accounting year is charged for the income listed above under (a) and (b) for residents and ordinarily residents, but he is not liable in respect of the income accruing or arising outside India. The foreign income of a non-resident, even if it is remitted to India in the previous year, does not attract tax.

Thus, the tax liability of an income-tax payer may be summarised as follows :

(1) Income received in India (whether earned in India or outside India) is taxable in the case of all assessees.

(2) Income earned in India (whether received in India or outside India) is taxable in the case of all assessees.

(3) Income earned from any source outside India but not received in India is taxable in the case of resident assessees.

(4) Income earned outside India from a business controlled in or a profession set up in India but not received in India is taxable in the case of person not ordinarily resident in India.

(5) Income earned outside India in the past several years but remitted to India in the previous year relevant to the assessment year is not taxable in the hands of any assessee.

Remittances

Any remittance received out of the foreign income is totally exempt from income-tax, both in the case of resident and non-resident assessees. It is the first receipt that determines the year and place of receipt for the purpose of taxation. Once an amount is received as income, any remittance or transmission of the amount to another place does not result in "receipt" within the meaning of "deemed to be received" at the other place. If a non-resident assessee remits any amount to India out of his income earned abroad either for the purpose of depositing the same in his own name or to gift away the same to any person in India, it will not be taxable under the Income-tax Act, since it cannot be considered as income received in India, for it looses the character of income and in the case of gift, the Gift-tax Act clearly exempts such gifts from the Gift-tax.

Income Deemed to Accrue or Arise in India

Under Section 5 of the Income-tax Act, all residents and non-residents are charged in respect of the income which accrues or is deemed to accrue in India or is received in India. Non-residents who are not assessable in respect of the income accruing and received abroad are rendered chargeable under Section 5(2)(b) of the Act in respect of income deemed by Section 9 of the Act to accrue in India.

Likewise, in the case of resident who is not ordinarily resident, income accruing and received abroad, which may

otherwise be exempt from the tax under the proviso to Section 5(1)(c), would be chargeable under Section 5(1)(b) if it is covered by Section 9 of the Act. Section 9(1)(i) of the Act prescribes that the following incomes even though accruing directly or indirectly outside India shall be deemed to accrue or arise in India and shall be included in the total income of a non-resident:

(1) income accruing through or from any business connection in India,

(2) income accruing through or from any property in India,

(3) income accruing through or from any asset in India or any source of income in India,

(4) income accruing through or from any money lent at interest and brought into India in cash or in kind, and

(5) income accruing through the transfer of a capital asset situated in India.

As a result of the amendment to the Section 9(1)(i) of the Income-tax Act effected by the Finance Act, 1976, non-resident assessees are rendered liable to pay tax on income accruing through or from any money lent at interest and brought into India in cash or in kind as it is considered as income deemed to accrue or arise in India.

The Finance Act, 1976, has inserted new clause (v), under which income from interest shall be deemed to accrue or arise in India if it is payable by the Government or by a person who is resident in India or by a person who is a non-resident where such interest is payable in respect of moneys borrowed or debt incurred for the purposes of a business or profession carried on by such person in India or for the purposes of making or earning any income from any source in India and such interest is made liable

to tax. This provision will, however, not be applicable in respect of interest payable by a resident in India on any moneys borrowed or debt incurred for the purposes of a business or profession carried on by such person outside India or for the purposes of making or earning any income from any source outside India.

The Finance Act, 1976, has also inserted two new clauses, viz., clauses (vi) and (vii) in sub-section (1) of Section 9 of the Income-tax Act. Under the new clause (vi), income from royalties shall be deemed to accrue or arise in India, if they are payable by the Government or by a person who is resident in India or by a person who is a non-resident where such royalty is payable in respect of any right, property or information used or services utilised for the purposes of a business or profession carried on by such person in India or for the purposes of making or earning any income from any source in India. This provision will, however, not be applicable in respect of royalty payable by a resident of India in respect of any right, property or information used or services utilised for the purposes of a business or profession carried on by such person outside India or for the purposes of making or earning any income from any source outside India.

Under the new clause (vii), income from fees for technical services shall be deemed to accrue or arise in India, if they are payable by the Government or by a person who is resident in India or by a person who is a non-resident where the fees are payable in respect of services utilised in a business or profession carried on by such person in India or for the purposes of making or earning any income from any source in India. This provision will, however, not be applicable in respect of fees for technical services payable by a resident in India in respect of services utilised in a business or profession carried on by such person outside India or for the purposes of making or earning any income from any source outside India. All these amendments

to Section 9(1) of the Act have come into force from the 1st June 1976.

Income from Interest in Specified Cases

Sub-section 4 of Section 10 of the Income-tax Act provides total exemption for non-residents for the income from interest on the following assets :

(1) on such securities as the Central Government may by notification in the Official Gazette specify for total exemption, or

(2) income from interest or from premium on the redemption of any bonds issued by the Central Government and the International Bank for Reconstruction and Development or under a loan agreement between the Central Government and the Development Loan Fund of the U.S.A. or by any industrial undertaking or financial corporation in India under a loan agreement with the said Bank or Fund, as the case may be, which is guaranteed by the Central Government.

Non-resident (External) Account

It is provided under Section 10(4A) of the Act that income of a non-resident from interest on moneys standing to his credit in a non-resident (external) account in any bank in India in accordance with the Foreign Exchange Regulations Act, 1947, and any rules made thereunder, is totally exempt.

Remuneration Earned Outside India by Professors, Teachers, etc.

Section 80R of the Act provides deduction out of the remuneration received by an Indian citizen from any university or other educational institution or such other institution established outside India as may be notified in the Official Gazette for any services rendered by him during

his stay outside India in his capacity as a professor, teacher or research worker. It is provided that 50 per cent of the remuneration received by such individual from such university or institution shall be deducted. It is laid down that if such individual renders continuous service outside India in such university or institution for 36 months, no deduction under this section shall be allowed in respect of the remuneration for such service relating to any period after the expiry of the 36 months aforesaid.

Professional Income from Foreign Sources

Under Section 80 RR of the Act, a resident artist, author, actor, playwright or musician who derives income in the exercise of his profession from foreign sources and receives such income in India or brings it into India in foreign exchange, will be entitled to deduct 25 per cent of the income so received or so brought in from his total income. Some of the professional activities coming within the scope of this Section are :

> publication outside India of a book produced by the author, contribution of articles to foreign journals and magazines, exhibition of paintings, sculptures or other work of art in foreign countries, giving of music concerts to foreign audiences and acting in dramatic performances, cinematographic films and television performances in foreign countries.

Tax Relief in Respect of Remuneration Received by Indian Technicians Employed Abroad

Liability to pay income-tax depends on the residential status of the tax payer as determined in accordance with the provisions of Section 6 of the Income-tax Act, 1961. Indian technicians, etc., who work for a short period during any financial year with a foreign Government or a foreign enterprise are liable to Indian income-tax, if they are "resident" in India for tax purposes in that year, the whole of the remuneration received by them from the

foreign employer becomes taxable without any allowance in respect of the expenditure incurred by them out of such remuneration for meeting higher living costs and other essential expenditure in foreign countries. However, a recent official press note provides that a deduction equal to 50 per cent of such remuneration will be allowed in the computation of taxable income. This deduction will be available only to citizens of India. In cases where the employee renders continuous service abroad for more than 36 months, the remuneration received by him for any period of service after the expiry of 36 months will not qualify for this deduction. In the case of employees of the Central Government or any State Government, the deduction will be allowed if the service of the employee is sponsored by the Central Government.

In the case of persons other than Government employees, the deduction will be allowed only if the individual is a technician and the contract of the service with the foreign employer is approved under Section 80 RRA of the Income-tax Act by the Central Government. For this purpose, the person will be regarded as a technician if he has a specialised knowledge and experience in any of the following fields and is employed by the foreign employer in a capacity in which such specialised knowledge and experience are actually utilised.

(i) Constructional or manufacturing operations or mining or the generation or distribution of electricity or any other form of power.

(ii) Agriculture, animal husbandry, deep-sea fishing or ship-building.

(iii) Public administration or industrial or business management.

(iv) Accountancy.

(v) Any field of natural or applied science including medical science or social science, and

(vi) Any other field which the Central Board of Direct Taxes may prescribe in this behalf in the Income-tax Rules.

Foreign Allowance to Indian Employees of Indian Government

Under sub-clause 7 of Section 10 of the Act, total exemption has been specifically provided for the allowance or any perquisite paid or allowed outside India as such by the Government to any Indian citizen for rendering service outside India. The above specific exemption is necessary because by the provision of clause (iii) of Section 9(1) any income chargeable under the head "Salaries" payable by the Government to a citizen of India for services outside India is deemed to accrue or arise in India, but for this exemption, the value of the perquisite or allowance paid or provided would be liable to tax in India.

Passage Money

Section 10(6)(i) of the Act provides total exemption for the passage moneys or the value of any free or concessional passage received by or due to an employee who is not a citizen of India from his employer for himself, his wife and children in connection with his proceeding to home country on leave out of India subject to such conditions as the Central Government may prescribe. By the amendment made by the Taxation Laws (Amendment) Act, 1970, with retrospective effect, it has been provided that the value of passage moneys or value of any free or concessional passage would also be entitled for exemption in the event of assessee's going to his home country after retirement from service or termination of his service in India.

Salary

The Finance Act, 1976, has inserted new sub-clause (xi) in Clause 6 of Section 10 of the Income-tax Act, whereby the remuneration received by an individual who is not

a citizen of India as an employee of the Government of a foreign state during his stay in India in connection with his training in any establishment or office of, or in any undertaking owned by the following, is exempt :

(1) the Government, or

(2) any company in which the entire paid-up share capital is held by the Central Government, or any State Government or Governments or partly by the Central Government and partly by one or more State Governments, or

(3) any company which is a subsidiary of a company referred to in item (2), or

(4) any corporation established by or under a Central, State or Provincial Act, or

(5) any society registered under the Societies Registration Act, 1860, or under any other corresponding law for the time being in force and wholly financed by the Central Government or any State Government or State Governments or partly by the Central Government and partly by one or more State Governments.

Non-residents—Determination of Income

Rule 10 of the Income-tax Rules 1962 provides that in any case which the Income-tax Officer is of the opinion that the actual amount of the income accruing or arising to any non-resident person whether directly or indirectly, through or from any business connection in India or through or from any property in India or through or from any asset or source of income in India or through or from any money lent at interest and brought into India in cash or in kind cannot be definitely ascertained, the amount of such income for the purposes of assessment of income-tax may be calculated—(1) at such percentage of the turnover so accruing or arising as the Income-tax Officer may consider to be reasonable; or (2) as any amount which bears

the same proportion to the total profits and gains of a business of such person (such profits and gains being computed in accordance with the provisions of the Act) as the receipts so accruing or arising bear to the total receipts of the business or (3) in such other manner as the Income-tax Officer may deem suitable.

Non-residents—Deduction of Income-tax at Source

In the case of non-residents, when the payment of interest (not being interest on securities) or any other sum (not being dividends) chargeable under the provision of the Income-tax Act is to be made, income-tax therefrom at the rates in force has to be deducted. Deduction of tax in such cases is to be made at the time of payment. When interest is capitalised, there is no payment of interest and, therefore, there can be no deduction of tax at source.

WEALTH-TAX

Foreign Assets

For the purpose of determining wealth-tax liability, the value of assets and debts located outside India is dealt with as under :

(a) For an individual who is not a citizen of India:

(i) the values of the assets and debts located outside India are excluded, and

(ii) the value of the assets in India represented by any loans or debts advanced by a foreigner to the assessee where such loans satisfy the conditions prescribed in Section 15(iv) of the Income-tax Act for the exemption of interest from the levy of income-tax shall be excluded.

(b) For an individual (whether Indian or not) or Hindu undivided family, if such individual is

not a resident or is resident but not ordinarily resident, the value of the following assets is exempt :

(i) the value of assets and debts located outside India, and

(ii) the value of loans from a foreigner to such assessee as is referred to in (a) (ii) above.

(c) For an individual or Hindu undivided family, if such individual or Hindu undivided family is resident and ordinarily resident, all the assets and debts located outside India are included in the wealth, but the amount of tax chargeable on such foreign assets is one half of the tax that would have been charged if the assets were located in India (Rule 4 of the schedule).

Foreigner's Liability for Wealth-tax

In the case of an individual who is not a citizen of India, the assets and debts located outside India are excluded from the total wealth (Section 6). In respect of the assets located in India, which are included in the net wealth, the wealth-tax payable by such a foreigner if he is not a resident shall be 50 per cent of the tax payable by an Indian on the same wealth. (Rule 3 of the schedule).

Moneys Brought by Indian Settlers Abroad

When Indians who are settled outside India come to India to reside in India with their moneys, the assets brought by them are not exempt from wealth-tax. In order to encourage Indian settlers abroad to come over to India permanently with their moneys, the Finance Act, 1976, has inserted the new clause (xxxiii) in Section 5(1) of the Wealth-tax Act, 1957, with effect from the 1st day of April 1977. As per the new clause (xxxiii), in case an assessee, being a person of Indian origin who was ordinarily residing in a foreign country and who on leaving such

country, has returned to India with the intention of permanently residing therein, moneys and the value of assets brought by him into India and the value of the assets acquired by him out of such moneys will be exempted from wealth-tax only for a period of seven successive assessment years commencing with the assessment year following the date on which such person returns to India. A person shall be deemed to be of Indian origin if he, or either of his parents or any of his grand-parents, was born in undivided India. The exemption will not be applicable to persons who come to India temporarily.

Non-resident Indians : Investments

In order to encourage investment by non-resident Indian citizens in Indian industries, the Finance Act, 1976, has inserted the new clause (xxxiv) in Section 5(1) of the Wealth-tax Act 1957 with effect from the 1st April 1977. As per the new clauses (xxxiv), in the case of an individual, being citizen of India, who is not resident in India during the year ending the valuation date, the value of any equity shares in any company of the type referred to in clause (d) of Section 45 which is engaged in the business of manufacture or production of any one or more of the articles or things specified in Schedule II or which is certified by the prescribed authority to have undertaken to export the required percentage of its total production, where such shares form a part of the initial issue of the equity share capital made by the company after the 31st March 1976 or where such shares form a part of an issue of equity share capital which is certified by the certifying authority to have been made by the company after the 31st March 1976 for the purposes of expansion or diversification of its industrial undertaking, is exempted from the Wealth-tax. An individual shall be deemed to be not resident in India during the year ending the valuation date if in respect of that year the individual was not resident in India within the meaning of the Income-tax Act. Schedule II refers, among other things or articles, to paper and pulp, automobile tyres and tubes, industrial machinery, machine tools, fertilizers, agricultural machinery, etc.

GIFT TAX

Foreign Property

Section 5(1) (i) lays down that gift tax shall not be liable on the gift of immoveable property situated outside the territories to which the Act extends. Regarding the gift of moveable property situated out of the territory to which the Act extends it is laid down that gift of such moveable property is taxable only if the assessee is an Indian citizen and resident and ordinarily resident in the territory to which the Act extends. If the assessee is non-Indian or even though Indian but "not ordinarily resident", the gift of foreign moveable property is exempt. Thus,

(a) foreign immoveable property shall always be exempt;

(b) foreign moveable property shall be exempt if the donor is (i) not a citizen of India, (ii) if citizen of India, is not an ordinarily resident of India;

(c) for an Indian citizen who is resident and ordinarily resident, the gift of moveable property which is made outside the taxable territory shall be taxable.

A non-resident is not liable to pay gift tax in respect of the gifts of immoveable or moveable property made outside India. He would be liable to pay the gift tax on gifted property situated in India.

ESTATE DUTY

Foreign Property

(1) **Foreign Immoveable Property**: It is laid down in Section 21 that the immoveable pro-

perty of the deceased situated outside India shall be exempted from the estate duty.

(2) **Foreign Moveable Property**: Regarding the moveable property situated outside India, the exemption depends upon the domicile of the deceased. If the deceased on the date of death was domiciled in India, such property shall not be exempt. Otherwise, it shall be exempt. The exemption is provided for the moveable property settled for life of the deceased. It is included in the estate (even though situated outside India even if the deceased is not domiciled in India) if the settler was domiciled in India on the date the settlement took effect. It must be noted that the crucial date on which the domicile of the settler is to be determined is not the date on which the settlement was effected, but the date on which the settlement took effect. It, therefore, follows that in the case of deceased domiciled in India, the entire moveable property whether in India or outside India shall be included in the estate, while in the case of a person not domiciled in India, moveable property situated in India only shall be included. The immoveable property situated outside India is exempt from the duty in all cases.

Non-resident (External) Account

Persons of Indian nationality or origin resident abroad can open with authorised dealers in India "non-resident (external) account" designated in Indian rupees without reference to the Reserve Bank of India. The remittances are required to be made to India through banking channels from abroad in an approved manner. The remittances from abroad are permitted without obtaining any formal approval of the Reserve Bank of India. Interest accrued on the balances held in such accounts is completely free

of Indian income-tax. The balance in this account is also exempt from wealth-tax. This facility is also available to Government servants posted abroad on duty with Indian missions and similar other agencies set up abroad by the Government.

Non-residents of Indian nationality or origin may also freely purchase Units of the Unit Trust, Government securities and National Plan Savings Certificates by remittances from abroad or by debit to their non-resident (external) accounts. In such cases, the dividends, interest and the sale and maturity proceeds, repurchase price of the Units, etc., can be repatriated abroad or credited to the external accounts with the Reserve Bank's prior permission, which is granted freely.

The entire income from the Units purchased by remittances from abroad or out of the funds held in the non-resident (external) accounts, whether maintained in designated foreign currencies or in Indian rupees, is exempt from the income-tax.

Persons of Indian nationality or origin resident abroad can invest their funds remitted from abroad through banking channels or balances lying to the credit of their (external) accounts with authorised dealers in any public or private limited company or any partnership/proprietorship concern irrespective of the nature of its activities.

Non-resident (Deposit)

The Reserve Bank of India has recently formulated a scheme under which Indian nationals and persons of Indian origin (including aliens of Indian origin resident abroad) holding foreign passport and residing abroad are now permitted to open and maintain foreign currency (non-resident) deposit accounts with banks in India. They can freely remit funds to India through banking channels without risk of any loss arising from fluctuations in ex-

change rates. For the time being, deposits are accepted in U. S. Dollars and Pound Sterling.

The deposits are repatriable both with respect to the capital and interest accrued thereon in the currency brought in. The accounts are to be maintained in the currencies in which the remittances are received and funds will be repayable to the account holder or elsewhere under his instructions in the same currency without reference to the Reserve Bank. The non-resident foreign currency deposit will receive interest in the currency in which the account is maintained. The interest earned on these deposits is entirely free from the Indian Income-tax. The deposits are for periods of 91 days and above but not exceeding 61 months. Interest on these deposits is paid on par with the rates for rupee deposits.

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Current Topics

Fifth Five Year Plan

The National Development Council recently approved the revised Fifth Five Year Plan, which envisages a total outlay of Rs. 69,303 crores against the Draft Plan provision of Rs. 53,250 crores. The revised Plan estimates are based on the 1974-75 prices, while the Draft Plan estimates were based on the 1972-73 prices. Therefore, the overall Plan will be smaller than originally proposed in terms of real content on account of the inflationary erosion.

Objectives and Strategy

The Fifth Five Year Plan has reaffirmed the objectives of self-reliance and removal of poverty. The overall growth of the economy is estimated at 4.37 per cent per annum in the final Plan document against 5.50 per cent per annum in the Draft Plan. The growth rate is projected at a lower level because there was hardly any growth in the first year of the Plan when investment had to be pruned down to keep inflationary pressures under control. In the first year, i.e., 1974-75, the overall growth rate was negligible at 0.2 per cent, in the second year it was 6 per cent and in the remaining three years (including the current year),

the growth rate is projected at 5.2 per cent per annum. The revised Fifth Plan sectoral rates of growth are shown below :

Table No. I

Fifth Plan : Projected Sectoral Rates of Growth

(In terms of value of output)

Sectors	Average annual rate of growth (%): 1978-79 over 1973-74	
	Draft Fifth Plan	Final Fifth Plan
1. Agriculture	4.67	3.94
2. Mining & Manufacturing	8.27	7.10
(a) Mining	10.47	12.58
(b) Manufacturing	8.21	6.92
3. Electricity	10.84	10.12
4. Construction	8.77	5.90
5. Transport	6.13	4.79
6. Services	6.27	4.88

Plan Outlay

Total outlay in the revised Fifth Five Year Plan is estimated at Rs. 69,303 crores as against Rs. 53,250 crores in the Draft Plan. Of this, the share of the public sector is Rs. 42,303 crores (including Rs. 3,000 crores for inventories) as against Rs. 37,250 crores in the Draft Plan and that of the private sector is Rs. 27,000 crores as against Rs. 16,000 crores in the Draft Plan. In the public sector, Rs. 33,603 crores have been provided for fresh investment, Rs. 3,000 crores for inventories and Rs. 5,700 crores for current outlay.

The sharp increase in the private sector outlay to Rs. 27,000 crores from Rs. 16,000 crores in the Draft Plan is mainly on account of the latest data on savings and investment in the household sector, particularly the agricultural sector, which show that a larger amount of addi-

tional resources than envisaged in the Draft Plan can be mobilised.

While the revised Plan has further stepped up the outlays on irrigation, power and industry, those on agriculture, transport, education, social and community services and for hilly and tribal areas have been marginally scaled down.

Table No. 2

Public Sector Outlay in the Fifth Plan

(Amount in crores of rupees)

	Head of Development	Revised outlay	Draft Plan outlay
1.	Agriculture and allied programmes	4,643	4,935
2.	Irrigation and flood control	3,440	2,681
3.	Power	7,294	6,190
4.	Industry and mining	10,201	9,029
5.	Transport and communication	6,881	7,115
6.	Education	1,284	1,726
7.	Social and community services	4,767	5,074
8.	Hilly and tribal areas	450	500
9.	Sectoral distribution not yet reported	343	—
	Total	39,303	37,250

Financing of the Plan

The estimates of financial resources for the revised Fifth Five Year Plan are given in table No. 3.

Domestic budgetary resources are expected to provide Rs. 32,115 crores or 81.7 per cent of the total public sector outlay and external assistance Rs. 5,834 crores or 14.9 per cent. The balance of the Plan outlay (3.4%) would be met through deficit financing.

The Plan estimates show additional resource mobilisation at Rs. 14,693 crores as against the Draft Plan esti-

Table No. 3

Estimate of Financial Resources for the Fifth Plan—Public Sector

(Rupees in crores)

	Draft Fifth Plan	First 3 years 1974-77	Last 2 years 1977-79	Revised Fifth Plan 1974-79
Domestic budgetary resources :	33,807	15,208	16,907	32,115
1. Balance from current revenues at 1973-74 rates of taxation	7,348	3,338	1,563	4,901
2. Gross surplus of public enterprises at 1973-74 fares, freights and tariffs	5,988	624	225	849
3. Market borrowings of Government, public enterprises and local bodies	7,232	3,030	2,849	5,879
4. Small savings	1,850	1,092	930	2,022
5. State provident funds	1,280	1,050	937	1,987
6. Term loans from financial institutions (Net)	895	340	288	628
7. Commercial credit from banks	1,185	@	@	@
8. Internal resources of public financial institutions for own investments in fixed assets	90	@	@	@
9. Miscellaneous capital receipts (Net)	1,089	(–) 556	1,112	556
10. Additional resource mobilisation	6.850	6,290	8,403	14,693
(a) Central	4,300	3,773	4,721	8,494
(b) States	2,550	2,517	3,682	6,199
11. Borrowings against utilisation of foreign exchange reserves	—	—	600	600
12. External assistance (Net)	2,443	3,434	2,400	5,834
13. Deficit financing	1,000	754	600	1,354
Aggregate resources	37,250	19,396	19,907	39,303

@ Subsequent to the formulation of the Draft Fifth Plan, it was decided to keep these resources as well as the outlays corresponding to them outside the Plan.

mate of Rs. 6,850 crores. The measures taken during the first three years of the Plan by the Centre and the States and their enterprises are estimated to yield about Rs. 13,092 crores. Thus, additional resources mobilisation during the remaining two years would be Rs. 1,601 crores—Rs. 900 crores (inclusive of States' share) by the Central Government and its enterprises and Rs. 701 crores by the States. Deficit financing during the next two years is estimated at Rs. 600 crores. With the large stocks of foodgrains, the projected deficit financing is expected to be easily absorbed by the economy.

Savings and Investment

The total fresh investment of Rs. 63,751 crores in the revised Fifth Plan is to be financed from domestic resources to the extent of Rs. 58,320 crores and a net inflow of Rs. 5,431 crores by way of external assistance. Thus, over 91 per cent of the total investment would be financed from domestic resources as compared to 84 per cent estimated for the Fourth Plan.

Of the aggregate domestic resources of Rs. 58,320 crores, about 27 per cent amounting to Rs. 15,994 crores would be contributed by the public sector, the balance of about 73 per cent would be accounted for by the private sector. The average rate of domestic savings is estimated to increase from 14.4 per cent of gross national product in 1973-74 at 1973-74 prices to 15.9 per cent in 1978-79 at 1975-76 prices.

Agriculture

The revised Plan envisages an average annual rate of growth of 3.94 per cent per annum in the agricultural sector in terms of gross output. The projected Plan targets for selected items in the agricultural sector together with those in the Draft Plan are given in table 4.

Table No. 4

Fifth Plan (Final): Selected Targets of Agricultural Production

	Unit	Final Plan	Draft Plan
Foodgrains	million tonnes	125.0	140.0
Sugarcane	—do—	165.0	170.0
Cotton	lakh bales	80.0	80.0
Jute and Mesta	lakh bales	77.0	77.0
Oilseeds	lakh tonnes	120.0	125.0
Sugar	million tonnes	5.4	5.7
Vanaspati	lakh tonnes	6.1	7.4

The Draft Plan foodgrains production target was 140 million tonnes, from which it has now been scaled down to 125 million tonnes. However, the average growth in the agricultural sector could go up during the Fifth Plan period, if weather conditions turn out to be good in the remaining two years.

Industrial Growth

The revised Fifth Plan envisages an overall annual rate of growth of 7.1 per cent in industry. An annual industrial growth rate of 9 per cent to 10 per cent has been projected for the next three years as industrial production rose only by 2.5 per cent in 1974-75 and by 5.7 per cent in 1975-76. Only if this order of growth is realised will the overall Fifth Plan industrial growth rate target of 7.1 per cent per annum be achieved. The revised Fifth Plan document assumes that conditions are now favourable for maintaining the tempo of growth in industrial production and investment achieved during the last quarter of 1975-76. However, most of the physical targets have been scaled down in the revised Plan due to two factors. First,

the base output in 1973-74 actually achieved in most cases was below the levels postulated in the Draft Plan. Growth of output in 1974-75 was also low, although there was a significant improvement in 1975-76. Thus, corrections had to be applied to provide for the change in the base level and in the light of experience of the first two years of the Fifth Plan. The Fifth Plan projections of physical output levels in 1978-79 for some important items are given below with the Draft Plan production estimates in brackets : (i) steel 8.8 million tonnes (9.4 million tonnes), (ii) iron ore 56.0 million tonnes (58.0 million tonnes), (iii) cement 20.8 million tonnes (25.0 million tonnes), (iv) paper 1.05 million tonnes (1.2 million tonnes), (v) electricity generation 116 billion kwh. (120 billion kwh.), (vi) crude petroleum 14.18 million tonnes (12.0 million tonnes), (vii) nitrogenous fertilisers 2.9 million tonnes (4.0 million tonnes), (viii) phosphatic fertilisers 0.77 million tonnes (1.25 million tonnes), (ix) cotton cloth 9,500 million metres (10,000 million metres), and (x) coal 124 million tonnes (135 million tonnes).

The outlay for the development of industry and minerals in the revised Plan is Rs. 16,660 crores against the provision of Rs. 13,528 crores in the Draft Plan. Of the total outlay, Rs. 9,660 crores will be in the public sector and Rs. 7,000 crores in the private and co-operative sectors.

In making revised allocations, special consideration has been given to speedy completion of projects and also for making fresh starts in certain new projects of long gestation period.

Power

According to the Plan proposals, the public sector total financial outlay on the power sector is Rs. 7,294

crores (18 per cent of total public sector outlay) as against Rs. 6,190 crores (17 per cent) in the Draft Fifth Plan. The outlay on power generation projects would be Rs. 4,539 crores, Rs. 1,973 crores will be spent on transmission and distribution and Rs. 685 crores on rural electrification. In the Fourth Plan, an additional 4,280 M.W. of generating capacity was added taking the installed capacity to 18,450 M.W. In the Fifth Plan, it is expected that about 12,500 M.W. of generating capacity would be added. In finalising the Fifth Plan, emphasis has been laid on the completion of on-going schemes as expeditiously as possible. In recommending outlays, the latest cost of each generation project, state of progress of major items of work, delivery schedules for equipment and any constraints likely to be faced in implementation were taken into account. Particular consideration has also been given to the setting up of intra and inter-State transmission lines, setting up and strengthening of regional grids and investments on distribution. About 13 lakh pumpsets are expected to be energised during the Fifth Plan period as against about 6 lakh pumpsets in the first three years. About 81,000 additional villages are expected to be electrified.

Irrigation

The total irrigation potential likely to be created during the Fifth Plan is placed at 13.1 million hectares—5.8 million under major and medium irrigation and 7.3 million under minor irrigation.

During the first three years of the Fifth Plan, the expenditure on major and medium irrigation projects is likely to be of the order of Rs. 1,474 crores. For the remaining two years of the Plan, an outlay of Rs. 1,621 crores is indicated.

Foreign Trade

A significant feature of the revised Plan is that export earnings have now been projected at a higher level of Rs. 21,722 crores than Rs. 12,580 crores envisaged in the Draft Plan. This optimistic revision has been made on the basis of recent trends in export growth. The average annual export growth rate has been raised from 7 per cent to 8.5 per cent in the final Plan. Imports also are projected at a higher level of Rs. 28,524 crores than Rs. 14,100 crores envisaged earlier, resulting in a larger trade gap of Rs. 6,802 crores than Rs. 1,520 crores estimated in the Draft Plan. The original objective of zero net aid has been given up on account of the deterioration in terms of trade. The revised Plan now estimates net foreign aid at Rs. 5,834 crores against the Draft Plan estimate of Rs. 2,443 crores.

The investment programmes in the revised Plan provide a major thrust for import substitution in four major sectors, viz., energy, metals, fertilisers and agriculture. In the case of energy, import substitution will be pursued both through an intensified programme of oil exploration and energy substitution, through increased utilisation of domestic coal and hydro-electric potential. In the field of steel, it is projected that through increased capacity utilisation and capacity expansion underway, steel imports would be restricted to only certain special categories. In the case of non-ferrous metals, the outlook is becoming more favourable as a result of further exploitation of metal resources and higher capacity utilisation in this sector. The envisaged expansion of fertiliser capacity is expected to bring down imports of manufactured fertilisers by the terminal year of the Fifth Plan. As regards exports, much reliance has been placed on the anticipated increase in the export earnings of engineering goods,

iron ore, handicrafts, cotton textiles, steel, fish and fish preparations and leather and leather products.

Employment Growth

The Plan document indicates the urgent need for making substantial efforts at employment generation in the rural areas. However, the real problem would be seen in a better perspective if it is realised that a part of the urban unemployment problem also arises from a spill-over from the rural areas. Also, regional variations of the problem have to be taken into account. Employment planning through agriculture has to be area specific in character and calls for a multi-level approach taking into consideration soil and agronomic conditions in each area, availability of irrigation facilities and cropping pattern. For successful local planning, land reform priorities in the 20-Point Economic Programme have to be implemented speedily. The rate of growth of manufacturing employment in the registered sector in the Fifth Plan is expected to be significantly higher than that in the Fourth Plan. The Fifth Plan provides for substantially higher outlays for projected programmes in the cottage industry sector in areas such as handloom, coir, carpet weaving and training and production planning programmes in other sectors. It is expected that the constraints on the use of agro-based supplies for the household sector will be less severe. Appropriate use of fiscal, credit and production support policies in this sector is essential for further generation of employment. Labour-intensive technological improvements need also to be developed and diffused.

The employment strategy suggested in the long-term perspective in the Plan document emphasises the need for stepping up of rates of public investment in order to

realise the output projections contained in the Plan, intensification and refinement of agricultural planning strategies, particularly in their local aspects, realisation of the objectives of land reforms as embodied in the 20-Point Economic Programme, production support to small farmers and finally regeneration of employment in the unregistered sector through an appropriate policy framework. The Plan document affirms that once the strategy for absorption of the available labour force in gainful activities is achieved, the qualitative aspects of the employment situation should change.

Legal Decisions

On Banking

Execution of Power of Attorney Before Notary Public in Foreign Country—If Valid?

National and Grindlays Bank Limited

vs.

Messrs. World Science News and Others

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Contributed by N. K. Randeria

The suit was filed by the Manager of the bank on the strength of a power of attorney executed by the bank before, and authenticated by, a Notary Public of the City of London. The original power of attorney bore the seal of the bank as well as the necessary authentication of due execution by the Notary Public under his seal.

The defendants denied that the Manager was duly constituted attorney entitled to institute or sign the plaint on behalf of the bank.

The High Court referred to Section 85 of the Evidence Act under which the Court could presume due execution if the document purporting to be a power of attorney was executed before, and authenticated by, among others, a Notary Public. The High Court observed that once the original document purporting to be

a power of attorney was produced, the Court had to presume that the same was so executed and authenticated. The authentication by a Notary Public is to be treated as equivalent of identity and the object of Section 85 is to avoid the necessity of such evidence of identity. Under Section 57 of the Evidence Act, the Court has to take judicial notice of the seal of the Notary Public, and when judicial notice of the seal is taken, there is no reason why the judicial notice of the signature should not be taken. Further, there is no justification to limit the words "Notary Public" to those appointed in India, as otherwise it would become impossible to carry on commerce with foreign countries.

The High Court referred to the decision in Jugraj Singh vs. Jaswant Singh (1971), 1 Supreme Court Reports 38, in which the Supreme Court held that the power of attorney executed and authenticated before a Notary Public of California did satisfy the test of Section 85.

In view of this, it was held that the Courts would have to take judicial notice of the seal of the Notary Public and that such judicial notice was not limited to Notaries appointed in India only.

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Statistics

TABLE 1

SELECTED ASSETS AND LIABILITIES OF BANKS IN INDIA

(Rupees in crores)

	Position as on 29-10-1976	A Month ago 24-9-1976	A Year ago 31-10-1975
State Bank of India			
Aggregate Deposits :	3,873	3,840	3,090
Demand (Exclusive of inter-bank transactions)	1,546	1,566	1,321
Time (-do-)	2,327	2,274	1,769
Advances (Excluding due from banks): Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	2,798	2,734	2,166
Investments in Government Securities	988	961	763
Associate Banks			
Aggregate Deposits :	888	865	702
Demand (Exclusive of inter-bank transactions)	358	365	290
Time (-do-)	530	500	412
Advances (Excluding due from banks): Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	664	653	534
Investments in Government Securities	174	170	133
All Scheduled Commercial Banks			
Aggregate Deposits:	16,257	15,942	13,195
Demand (Exclusive of inter-bank transactions)	6,294	6,283	5,405
Time (-do-) ..	9,963	9,659	7,790
Advances (Excluding due from banks): Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	12,177	11,724	9,388
Investments in Government Securities	3,826	3,812	3,095

TABLE II

SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	June 1976		June 1975	
	State Bank of India	Associate Banks	State Bank of India	Associate Banks
No. of Offices	3,953	1,860	3,504	1,748
Advances				
to Agriculture:				
(i) Direct				
No. of Accounts	9,46,396	1,87,538	6,16,712	1,22,011
Outstandings	199	61	134	39
(ii) Indirect				
No. of Accounts	18,671	3,441	9,105	3,345
Outstandings	67	23	67	18
to Small Scale Industries:				
No. of Units	91,753*	50,648	73,302	36,791
Outstandings	309*	82	289	81
to Small Business:				
No. of Accounts	1,77,861	59,572	1,10,969	33,918
Outstandings	64	16	44	12
under Differential Interest Rates Scheme:				
No. of Accounts	2,46,255	61,319	1,22,916	32,748
Outstandings	11	3	5	1
for Exports:				
Outstandings	206	48	166	38

* Provisional

TABLE III

SELECTED ECONOMIC INDICATORS

	Position as on 29-10-1976	A Month Ago 24-9-1976	A Year Ago 31-10-1975
	(Amounts in rupees crores)		
1. Money Supply with the Public ..	13,888	13,663	12,094
(a) Currency with the public ..	7,318	7,130	6,508
(b) Deposit money with the public	6,570	6,533	5,586
	August 1976	July 1976	August 1975
2. Foreign Exchange Reserves			
(a) SDRs* ..	18.96	18.96	22.03
(b) Gold ..	182.52	182.52	182.53
(c) Foreign Exchange ..	2,082.91	1,945.03	741.09
3. Money Rates	(Per cent per annum)		
(a) Bank Rate ..	9	9	9
(b) State Bank of India Advance Rate ..	14	14	14
(c) State Bank of India Hundi Rate	14-16	14-16	14-16
(d) Call Money Rate (Bombay) ..	10.0	10.7	6.4
(e) Bazar Bill Rate (Bombay) ..	21	21	21

*In crores of SDRs.

TABLE III

SELECTED ECONOMIC INDICATORS (Contd.)

		July 1976	June 1976	July 1975
4. Index Number of Industrial Production (1970=100)				
General Index		131.7	128.0	119.3
		Week ended 30-10-1976	Week ended 25-9-1976	Week ended 25-10-1975
5. Index Number of Wholesale Prices (1961-62=100)				
All Commodities	..	309.9	313.4	309.0
Food Articles	..	339.8	345.5	363.4
Liquor & Tobacco		340.6	341.6	320.4
Fuel, Power, Light and Lubricants	..	370.9	370.9	351.6
Industrial Raw Materials	..	315.6	323.4	265.7
Chemicals	..	287.9	286.5	325.2
Machinery and Transport Equipment	..	257.6	258.3	263.3
Manufactures	..	265.0	265.3	252.5
		July 1976	June 1976	July 1975
6. Consumer Price Index Number for Industrial Workers—All-India (1960=100)	..	297	291	324
7. Foreign Trade		(Rupees in crores)		
Total Imports	..	337.7	274.1	430.4
Total Exports (including re-exports)	..	369.8	316.9	296.7

ज्ञानं ज्ञेयं परिज्ञाता, त्रिविधा कर्मचोदना।

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Jute Industry: Position and Prospects

Next in importance to the cotton textile industry comes the jute industry. The trade in jute has been important since the early days of East India Company, the purposes for which it was chiefly used being the manufacture of cordage, ropes, etc. Till about 1830, the manufacture of gunny bags and jute cloth was the monopoly of the Bengal handloom weaver. After this date, an active manufacturing industry having sprung up at Dundee in Scotland, it was found more profitable to export raw jute than to produce gunnies on the handloom. The manufacture of jute with the help of machinery was started in India in 1854, when a jute mill was established at Serampore. Since then, the industry has made rapid progress and played a prominent role in the country's economy in general and that of West Bengal in particular. For a number of years, the jute manufactures were the country's largest foreign exchange earner. However, of late, they have lost the position to other commodities like sugar, leather and leather goods and engineering goods. With a capital investment of about Rs. 240 crores spread over 69 units, the industry has today an installed capacity of 13.20 lakh tonnes. India is the largest producer of jute goods in the world. While about 4 lakh persons are employed in the jute industry and trade, over 20 lakh farmers are engaged in jute cultivation.

Despite the importance of the jute industry in the national economy, the fortunes of the industry have been subjected to many ups and downs. On the supply side, fluctuations in the production of raw jute, low yield per

hectare, cost inflation, labour unrest, obsolete machinery and irregular power supply are some of the factors affecting the performance of the industry. On the demand side, emergence of synthetics, changing pattern of demand for jute goods in the world markets and competition from Bangladesh are the problems faced by the industry.

Locational Characteristics

The industry is largely concentrated in West Bengal since the banks of the river Hooghly offer the best facilities for the manufacture of jute goods. Thus, of the 69 jute mills in the country, 57 are located in West Bengal, followed by Andhra Pradesh (4), Uttar Pradesh (3), Bihar (3), Madhya Pradesh (1) and Assam (1).

Capacity Utilisation : Low

The existing capacity of 69 jute mills in India is about 13.20 lakh tonnes per annum. An additional capacity of 1.13 lakh tonnes is likely to be created through setting up of 8 new jute mills in various jute growing States. Besides, there are 24 registered jute twine units in the country having a production capacity of around 71,000 tonnes per annum. But the actual production has been below the rated capacity due to various reasons such as shortage of spinning and processing equipment, shortage of raw materials and power supply and shortfall in export demand. In 1975-76, the capacity utilisation was only 86 per cent. Of late, while production has been maintained at a steady rate, exports have dwindled.

Raw Jute : Fluctuations in Production and Prices

India is the largest producer of raw jute in the world, followed closely by Bangladesh. West Bengal accounts for nearly 60 per cent of the total raw jute production, followed by Assam (18%), Bihar (13%), Orissa (7%), Uttar Pradesh (1%) and Tripura (1%).

The production of raw jute has been erratic. This has resulted in instability in raw jute prices, thereby upsetting the jute economy. The large amplitude of price variation is partly the cause and partly the result of fluctuations in acreage under jute. Land suitable for cultivation of jute is also suitable for paddy cultivation and, therefore, the farmers' response to price changes in determining the acreage under jute is highly sensitive. Being an agro-based industry, its production is subject to natural vagaries like drought and floods.

TABLE NO. I

Raw Jute (including Mesta): Area and Production

Year	Area ('000 hectares)	Production ('000 bales)	% variation over the previous year	
			Area	Production
1960-61	903	5,263	—	—
1961-62	1,342	8,236	+ 48.6	+ 56.5
1962-63	1,242	7,185	— 7.4	— 12.8
1963-64	1,270	7,976	+ 2.3	+ 11.0
1964-65	1,199	7,604	— 5.6	— 4.7
1965-66	1,110	5,778	— 7.4	— 24.0
1966-67	1,119	6,579	+ 0.8	+ 13.9
1967-68	1,201	7,592	+ 7.3	+ 15.4
1968-69	807	3,837	— 32.8	— 49.5
1969-70	1,090	6,750	+ 35.1	+ 75.9
1970-71	1,079	6,193	— 1.0	— 8.2
1971-72	1,111	6,834	+ 3.0	+ 10.4
1972-73	993	6,090	— 10.6	— 10.9
1973-74	1,163	7,637	+ 17.1	+ 25.4
1974-75	787	5,798	— 32.3	— 24.1
1975-76	900	5,623	+ 14.4	— 3.0
1976-77	1,012*	7,240*	+ 12.4	+ 28.8

* Estimated.

Raw Jute : Statutory Price Support

With a view to ensuring minimum price for the growers, the Union Government introduced a system of statutory support price for raw jute in the 1972-73 season. The system of minimum support price is being reviewed every season.

The Government has maintained the minimum support price for raw jute (Assam Bottom Variety) at Rs. 135 per quintal for the 1976-77 jute season as against Rs. 140 suggested by the Agricultural Prices Commission. The West Bengal Government had earlier pressed for a rise in the price to Rs. 180 per quintal, on the plea that unless a higher price was offered, the area under jute cultivation might go down substantially during the next season.

The decision to maintain the support price appears to have been taken on two grounds. Firstly, the jute industry is not in a position to pay a higher price, since its liquidity position is far from satisfactory. Secondly, the mills will not be able to sell their products abroad, where the level of demand is already low. It is feared that any further rise in the cost of production of jute goods will severely cripple the industry.

Yield Per Hectare : Low

As can be seen from Table No. I, the increase in production in certain seasons has been mainly due to the increase in acreage. There has been little improvement in the yield per hectare. The average yield in India is lower at 7.8 bales per hectare than 9.5 bales in Bangladesh and Thailand. There is considerable scope for improving the yield by undertaking intensive jute cultivation programmes.

Jute Corporation of India : Role in Maintaining Stability of Raw Jute Prices

In addition to the export demand, the prospects of the jute industry largely depend on the fluctuations in the production of raw jute. In the past, when bumper crops were harvested, the prices of raw jute used to crash. This adversely affected the farm income of the jute growers resulting in a diversion of the acreage from raw jute to paddy. This sharply reduced the supplies of raw jute. Obviously, there was a need to stabilise the prices and production of raw jute. Therefore, the Jute Cor-

poration of India was established in April 1971 to play a dynamic and important role not only in relation to the jute grower alone but also the industry, assuring the jute grower a timely price support and the industry of supplies at reasonable prices.

The Corporation is a wholly owned private limited company of the Government of India. Its main functions are (i) export and import of raw jute, (ii) internal marketing of jute and (iii) undertaking measures for export promotion of jute goods. The Corporation is quite active in procurement operations whenever the market prices of raw jute fall below the support prices. The Government has canalised the export of raw jute through the Corporation since February 1973.

Raw Jute : Imports

In view of the erratic trends in production, raw jute is imported whenever the production falls short of demand. The imports during the period from 1960-61 to 1974-75 are shown in Table No. 2.

TABLE No. 2

Imports of Raw Jute (including Mesta)

(In '000 bales of 180 kgs. each)

Year (July-June)		Quantity
1960-61	..	416
1961-62	..	468
1962-63	..	293
1963-64	..	116
1964-65	..	588
1965-66	..	1,209
1966-67	..	1,653
1967-68	..	—
1968-69	..	600
1969-70	..	—
1970-71	..	—
1971-72	..	—
1972-73	..	255
1973-74	..	82
1974-75	..	119

Production of Jute Manufactures : Pattern and Trend

Production of jute goods in recent years has been fluctuating from year to year largely in conformity with the change in demand pattern in the domestic and world markets and the availability of raw jute. It can be seen from the Table No. 3 that production has not exceeded the level of 13.20 lakh tonnes reached as far back as in 1964-65.

TABLE No. 3

Production of Jute Manufactures : Pattern and Trend

(In thousand tonnes)

Year (July-June)	Hessian	Sacking	Other Manufactures	Total
1960-61	372	533	118	1,023
1961-62	414	509	146	1,069
1962-63	515	532	171	1,218
1963-64	534	495	220	1,249
1964-65	527	574	219	1,320
1965-66	488	548	191	1,227
1966-67	443	508	201	1,152
1967-68	451	458	232	1,141
1968-69	317	332	283	932
1969-70	341	377	250	968
1970-71	316	444	217	977
1971-72	331	499	308	1,138
1972-73	335	444	266	1,045
1973-74	296	376	265	937
1974-75	334	429	176	939
1975-76	283	620	233	1,136

The relative stagnation on the production front is attributable to the weakness in demand and the inability of the industry, under mounting pressure of costs, to market its products in competition with synthetics and jute goods originating from other sources, principally Bangladesh. In regard to the pattern of production, a defi-

nite shift in favour of sacking and other manufactures (carpet backing, canvas and other items) is perceptible. Thus, in 1964-65, when the industry's production was at the peak level, 43.5 per cent of the total production consisted of sacking, 39.9 per cent of hessian and 16.6 per cent of other manufactures. In 1975-76, while the share of sacking and other manufactures rose to 54.6 per cent and 20.5 per cent respectively, that of hessian declined to 24.9 per cent.

Exports : Declining Trend

Although the jute industry has been export-oriented since its inception and has retained its position as the country's largest foreign exchange earner for a number of years, of late, its performance has been far from satisfactory. The exports of jute goods rose from Rs. 135.15 crores in 1960-61 to Rs. 235.44 crores in 1966-67. However, a declining trend has set in thereafter and they came down to Rs. 190.44 crores in 1970-71.

The falling trend in exports was reversed in 1971-72 mainly due to the disturbances in Bangladesh. Prior to disturbances, Bangladesh was exporting 40,000 tonnes of jute goods per month. Besides, 3.5 million bales of raw jute were also exported every year. Due to the extensive damage to the crop and to the jute mills, the industry in Bangladesh was in bad shape in 1971-72. This induced overseas consumers to turn to India for meeting their requirements. As a result, India's exports increased significantly from Rs. 190.44 crores in 1970-71 to Rs. 265.28 crores in 1971-72. However, this improvement was short-lived inasmuch as exports declined to Rs. 249.97 crores in 1972-73 and further to Rs. 227.47 crores in 1973-74. Although exports rose to Rs. 295.68 crores in 1974-75, they declined again to Rs. 248.31 crores in 1975-76.

Between 1960-61 and 1975-76, while the country's total exports rose faster by 513.7 per cent, exports of jute goods increased by only 83.7 per cent. Consequently,

the share of jute goods exports in the total exports of the country declined steeply from 21 per cent to 6.3 per cent during the same period.

TABLE No. 4

Exports of Jute Manufactures

(In crores of rupees)

Year	Exports of jute manufactures	Total exports	Share of Jute goods in total exports (Col 2 as % of Col. 3)
1	2	3	4
1960-61	135.15	642.32	21.0
1961-62	144.79	660.34	21.9
1962-63	155.66	685.48	22.7
1963-64	157.42	793.24	19.8
1964-65	168.45	816.30	20.6
1965-66	182.84	805.64	22.7
1966-67	235.44	1,094.00	21.5
1967-68	234.09	1,198.69	19.5
1968-69	218.01	1,357.87	16.1
1969-70	206.65	1,413.28	14.6
1970-71	190.44	1,535.16	12.4
1971-72	265.28	1,608.22	16.5
1972-73	249.97	1,970.83	12.7
1973-74	227.47	2,523.40	9.0
1974-75	295.68	3,304.14	8.9
1975-76	248.31	3,941.62	6.3
Percentage increase of 1975-76 over 1960-61	83.7	513.7	—

Jute Goods Exports: Pattern of Trade

Pattern of jute goods exports has undergone a change during the last decade. In 1964-65, hessian constituted more than half (50.5%) of the total exports of jute goods, sack-

ing accounted for 27.2 per cent, carpet backing for 11.5 per cent and others for 10.8 per cent. However, between 1964-65 and 1974-75, the share of carpet backing rose from 11.5 per cent to 20.5 per cent, while the shares of sacking and hessian declined from 27.2 per cent and 50.5 per cent to 22.4 per cent and 45.5 per cent respectively. It is pertinent to note that the export of carpet backing, which reached a peak of 2.53 lakh tonnes in 1971-72, has been maintaining a declining trend since then. Exports of hessian and sacking have also declined sharply from 4.80 lakh tonnes and 2.59 lakh tonnes in 1964-65 to 2.65 lakh tonnes and 1.30 lakh tonnes in 1974-75 respectively. The pattern of jute goods exports is shown in the following table.

TABLE No. 5

Pattern of Jute Goods Exports

(In thousand tonnes)

Year	Sacking	Hessian	Carpet Backing	Others	Total
1964-65	258.7	479.7	109.2	102.6	950.2
	(27.2)	(50.5)	(11.5)	(10.8)	(100.0)
1965-66	248.0	456.2	100.2	90.8	895.2
	(27.7)	(51.0)	(11.2)	(10.1)	(100.0)
1966-67	180.7	360.2	134.2	57.0	732.1
	(24.7)	(49.2)	(18.3)	(7.8)	(100.0)
1967-68	157.1	385.4	150.2	58.7	751.4
	(20.9)	(51.3)	(20.0)	(7.8)	(100.0)
1968-69	83.3	310.0	199.5	57.3	650.1
	(12.8)	(47.7)	(30.7)	(8.8)	(100.0)
1969-70	55.8	262.7	204.8	45.5	568.8
	(9.8)	(46.2)	(36.0)	(8.0)	(100.0)
1970-71	105.4	300.6	189.9	57.2	653.1
	(16.1)	(46.0)	(29.1)	(8.8)	(100.0)
1971-72	149.2	315.6	252.9	74.4	792.1
	(18.8)	(39.8)	(31.9)	(9.5)	(100.0)
1972-73	91.0	256.4	162.6	68.4	578.4
	(15.7)	(44.3)	(28.2)	(11.8)	(100.0)
1973-74	91.7	225.2	178.3	74.7	569.9
	(16.1)	(39.5)	(31.3)	(13.1)	(100.0)
1974-75	130.4	265.2	119.8	67.8	583.2
	(22.4)	(45.5)	(20.5)	(11.6)	(100.0)
1975-76	N.A.	N.A.	N.A.	N.A.	500.0

Figures in brackets indicate percentage shares in the total.
N.A.— Not available.

Exports : Declining Share in Production

The jute industry, being basically export-oriented, used to export the bulk of its production. Thus, in 1964-65, 72 per cent of its production was marketed abroad. However, over the years, the share of exports in the total production has dwindled considerably and in 1975-76, exports accounted for only 44 per cent of the production. This implies that the industry is fast losing its foreign markets and is increasingly depending on the domestic market to sell its products. This is evident from the following table.

TABLE No. 6

Jute Goods: Production and Exports

(In thousand tonnes)

Year	Production	Exports	Exports as % of production
1964-65	1,320	950	72.0
1965-66	1,227	895	72.9
1966-67	1,152	732	63.5
1967-68	932	650	69.7
1968-69	932	650	69.7
1969-70	968	569	58.8
1970-71	977	653	66.8
1971-72	1,138	792	69.6
1972-73	1,045	578	55.3
1973-74	937	570	60.8
1974-75	939	583	62.1
1975-76	1,136	500	44.0

Direction of Jute Goods Exports

India's exports of jute goods are mainly directed to the U.S.A., the U.S.S.R., Iran and the U.A.R. Exports to the U.S.A. rose from Rs. 44.56 crores in 1960-61 to Rs. 124.86 crores in 1971-72, but thereafter, declined steeply to Rs. 81.60 crores in 1974-75. Exports to the U.S.S.R., on the other hand, rose significantly from Rs. 3.67 crores in 1960-61 to Rs. 59.04 crores in 1974-75. During the period, exports to Iran and the U.A.R. increased from Rs. 0.52 crore and Rs. 4.94 crores to Rs. 11.89 crores

TABLE No. 7

Country-wise Exports of Jute Goods (Bags and Cloth)

(In lakhs of rupees)

Country	1960-61	1965-66	1970-71	1971-72	1972-73	1973-74	1974-75
Australia	12,29	8,86	9,10	11,25	7,38	11,38	9,26
Canada	7,42	9,96	11,51	15,78	9,41	8,70	9,97
Cuba	7,13	29	—	—	—	—	—
Czechoslovakia	7	74	1,82	2,31	3,50	1,89	4,73
Iran	52	1,02	1,55	1,75	6,61	4,52	11,89
New Zealand	84	1,02	1,94	3,16	2,26	3,12	4,45
Sudan	1,40	2,34	7,32	7,27	4,95	5,11	5,18
U.A.R.	4,94	13,31	12,31	3,37	11,71	2,94	11,08
U.K.	6,22	6,85	1,99	6,26	4,16	3,20	4,79
U.S.A.	44,56	71,72	77,91	124,86	98,38	93,64	81,60
U.S.S.R.	3,67	25,48	34,42	31,17	52,61	32,46	59,04
Yugoslavia	17	50	1,70	1,13	22	20	2
Other countries	42,14	34,38	23,47	49,57	39,50	50,44	84,19
Total	131,37	176,47	185,04	257,88	240,69	217,60	286,20

and Rs. 11.08 crores. While exports to countries like Australia, Canada, the U. K. and Sudan have been maintaining a fluctuating trend since 1960-61, those to Yugoslavia have been declining since 1970-71.

Major Problems

The industry is passing through a critical situation. The deteriorating position is attributed to several problems which are inter-related. These have not cropped up overnight and some of them have been afflicting the industry for quite some time.

Mounting Cost of Production

The industry is experiencing the baneful effects of cost inflation. In the last five years, the cost of production has gone up by about 60 per cent, while the wholesale price index of jute manufactures increased only by 29 per cent between 1971-72 and 1975-76. Among the various components of costs, while there has been a steep rise in wages, the increase in raw material costs has been of lesser magnitude. During the years from 1971-72 to 1973-74, the manufacturing expenses (other than wages) including cost of raw materials, stores and power remained more or less steady at 61 per cent of the total cost of production. However, the share of wages increased from 22 per cent in 1970-71 to 25 per cent in 1972-73 and to 28 per cent in 1973-74.

Competition from Bangladesh

The boom witnessed by the Indian jute industry in 1971-72 due to disturbances in Bangladesh was short-lived inasmuch as the jute industry in Bangladesh has staged a significant recovery in recent years. Bangladesh produces 6 lakh tonnes of fine quality raw jute and manufactures 5 lakh tonnes of jute goods. Bangladesh has been underquoting Indian jute goods in foreign markets. In many cases, the overseas buyers have been placing orders first with Bangladesh mills, Indian mills getting only

residual orders. In point of fact, the Bangladesh jute goods are stated to be cheaper than Indian products. Besides, Bangladesh allows post-shipment credit up to one year against 180 days by India. The devaluation of Bangladesh Taka in May 1975 by about 38 per cent in relation to Indian rupee and by about 58 per cent in relation to pound sterling has further sharpened the edge of its competitiveness.

Threat from Synthetics

Since 1974, the sale of all traditional varieties of jute goods in the United States, Western Europe and to an extent in East European countries has been severely jeopardised by synthetic substitutes and other alternative materials. Wide adoption of containerisation and technological developments of plastics and paper materials as substitutes for the traditional jute products have adversely affected the position of jute goods in world markets. Primary backing of polypropelene has captured the bulk of the market, resulting in loss of the competitive position of the jute carpet backing. During 1976 so far, the monthly offtake of carpet backing by the U.S.A. has been reduced from an average of 15,000 tonnes in the past to merely 5,000-6,000 tonnes, whereas the production of jute carpet backing approximates 18,000 to 20,000 tonnes per month.

Modernisation

Another basic problem is the existence of obsolete machinery. The survival of the industry is greatly dependent on its ability to accelerate the pace of modernisation. The Indian jute industry lags behind its foreign counterpart both in capital equipment and productive techniques. As late as 1956, the Planning Commission had pointed out that the existing machinery had become "to a large extent worn out and obsolete". The continuous neglect of timely modernisation and rehabilitation of plant and machinery in the jute industry and the absence of a thrust in research especially at a time when competition from the

synthetic fibre goods manufacturers was quite evident, have brought the Indian jute industry to a point of fighting for very survival.

Jute mill modernisation poses three problems, all arising from the chronic unprofitability of the jute manufacture. Firstly, the industry has no reserves. Secondly, it lacks the capacity to repay or even service loans and finally, because of its inability to make profits, the industry is fast becoming unviable.

Profitability : Trend

The fluctuating fortunes of the industry are reflected in the following table.

TABLE No. 8

Reserve Bank of India's Study of Company Finances
Profitability Ratios of 44 Jute Companies

Ratio	1970-71	1971-72	1972-73	1973-74	1974-75
1. Gross profits as % of sales	4.0 (10.3)	6.2 (10.0)	2.5 (9.5)	0.5 (10.7)	6.3 (11.4)
2. Gross profits as % of total net assets	5.7 (10.4)	10.6 (10.4)	4.6 (10.3)	0.8 (11.2)	9.7 (12.8)
3. Profits after tax as % of net worth	4.6 (11.2)	15.2 (10.5)	2.9 (10.3)	* (11.6)	13.6 (13.7)

(Figures in brackets indicate ratios for "all industries.")
* Numerator is negative.

It will be observed that only in 1971-72 the profitability of the industry compared favourably with that of "all industries". This was mainly due to the disturbances in Bangladesh. Although the profitability declined steeply in the subsequent two years, it staged a smart recovery in 1974-75.

Government Measures

(i) **Fiscal Reliefs :** With a view to correcting the deterioration in competitive position of Indian jute goods

in the world markets, the Government provided some fiscal reliefs. Export duties on carpet backing ranging between Rs. 200 and Rs. 750 per tonne depending on the quality of the product was reduced to a flat rate of Rs. 200 per tonne in December 1974 and was completely abolished in May 1975. The export duty of Rs. 600 per tonne on hessian was also abolished in June 1975.

(ii) **Development Council for the Jute Industry** : A Development Council for the industry has been constituted by the Government to improve the performance and competitiveness through a programme of modernisation. A fund is being created to undertake these programmes by means of a cess on jute manufactures effective from March 1, 1976. The fund will be utilised by the Development Council to undertake research and to assist the jute mills to improve the techniques, effect renovation, etc. This will supplement the efforts already being made by the Indian Jute Mills Research Association.

(iii) **Bose Mullick Committee** : The Government has appointed a Committee under the Chairmanship of Shri S. G. Bose Mullick, Commerce Secretary, to suggest measures for improving the industry's working. In the interim report, the Committee is understood to have recommended that (i) bank credit to the industry should be made available on more liberal terms, (ii) the 10 per cent cash subsidy on carpet backing should be continued and extended to hessian, and (iii) the Jute Commissioner should exercise discretionary powers to secure proper inventory control and management by jute mills. The final recommendations of the Committee are awaited.

(iv) **Soft Loans for Modernisation** : The jute industry's requirements of long-term resources for modernisation are being estimated at Rs. 168 crores, spread over a period of 5 years. The Industrial Development Bank of India has been directed to finance the modernisation programme of the industry. Accordingly, a soft window

for financing jute industry is being opened by the IDBI. The IDBI will provide assistance for modernisation, replacement and renovation of plant and equipment so as to achieve higher and more economical level of production. The basic consideration for assistance will be the weakness of the units arising from obsolete machinery and not due to managerial deficiencies. Priority will be given to spinning including the preparatory section, and processing sections.

(v) **Fair Price for Jute Goods by D.G.S. & D.** : The jute industry has contended that the present cost of production works out to Rs. 392 per 100 bags of sacking against the ruling price of around Rs. 300. Under a one-year agreement with D.G.S. &.D. in May 1975, the mills were getting a price of Rs. 317 per 100 bags. This contract is due for renewal and the representatives of Indian Jute Mills Association have submitted their case for fixation of D.G.S. & D. prices on a cost plus basis. Reportedly, the Government has also asked D.G.S. & D. to fix a reasonable price instead of the market price. The Jute Commissioner is reported to have recommended a fair price of Rs. 351.33 per 100 bags against the ruling price of Rs. 300.

(vi) **Cash Compensatory Support** : In order to support exporters in facing competition in world markets, the Government has been giving a cash compensatory support of 10 per cent on both carpet backing cloth and hessian exports. With effect from 5th September 1976, the Union Government has decided to grant a cash compensatory support for cotton bagging exports at the rate of 25 per cent of the f.o.b. price. The subsidy will continue up to the end of March 1977.

Bank Finance for the Jute Industry

All scheduled commercial banks' advances to the jute industry amounted to Rs. 136.17 crores at the end of December 1974, thus forming 1.67 per cent of their

total advances. Of these, while the State Bank Group contributed 51.08 per cent, other scheduled commercial banks provided 48.92 per cent. Advances to the jute industry formed 3.16 per cent of the total advances of the State Bank Group as compared to 1.12 per cent in the case of other scheduled commercial banks.

TABLE No. 9

Scheduled Commercial Banks' Advances to the Jute Industry as on the Last Friday of December 1974

(In crores of rupees)

	Advances to jute industry	Total advances	Share of jute advances in total advances (% of Col. 2 to Col. 3)
1	2	3	4
State Bank of India and its Associates	69.55 (51.08)	2,198.55 (27.00)	3.16
Other Scheduled Commercial Banks	66.62 (48.92)	5,944.90 (73.00)	1.12
All Scheduled Commercial Banks	136.17 (100.00)	8,143.45 (100.00)	1.67

(Figures in brackets indicate percentages to the total.)

Similar data for the banking system as a whole for any subsequent date are not available. The advances of the State Bank of India to the jute industry amounted to Rs. 58.49 crores at the end of December 1975, accounting for 2.52 per cent of its total advances.

Outlook for the Future

Despite the current crisis, the long-term outlook for the jute industry is not as bleak as it is made out today. It can successfully face the competition from synthetics and Bangladesh in world markets provided the prices of jute goods are kept at a reasonable level by research

and development. Although synthetic manufactures had adjusted themselves initially to the oil crisis, there are clear indications now that they would not be able to keep prices of their products substantially lower than those of jute goods. With inflationary trends already in evidence in West European countries and the U.S.A., one can be fairly optimistic about jute gaining ground in these markets in future.

The progress of the industry in the field of research and development has been tardy. There is need for developing new products and invent new uses for existing products. It is reported that the industry has started commercial production of blended yarns of jute/rayon and jute/wool on jute machinery for end-uses like woven/tufted carpet, fancy fabrics, etc. While this development is encouraging, there is need for making further progress in this regard. Besides, it is necessary to explore new markets for jute goods in view of the shrinkage in the traditional markets due to the inroads made by the synthetics.

Prospects on the export front are likely to improve as a result of the orders for substantial quantities of jute goods expected to be placed by Sudan, the U.S.S.R. and Australia and the lowering of tariff barriers by the European Economic Community (EEC) from January 1977 onwards. The STC has been reported to be successful in getting part of the export order for 20,000 tonnes of jute goods under a global tender issued by the Sudanese Government.

In domestic market, the D.G.S. & D. has been asked to purchase large quantities of sacking materials. Favourable factors such as the step-up in food procurement and an increase in fertiliser production and distribution are expected to boost the demand for jute bags in the domestic market. The prospects of good harvests also augur well for the jute industry. Besides, in view of the declining trend in exports, the industry should gear itself to

meet the internal needs on a much larger scale than was the case hitherto.

Raw material supplies are unlikely to pose any serious problems for the industry. The Jute Commissioner has withdrawn all restrictions on purchases of raw jute by consuming mills. A bumper jute and mesta crop is forecast for 1976-77 and the expectations are that total raw jute availability will exceed 9 million bales.

Till recently, an important factor responsible for the deteriorating position of the industry was the increasing tension between management and labour, resulting in greatly strained industrial relations. Due to labour unrest, the industry suffered considerable loss of production before emergency. With the declaration of emergency, the industrial climate has changed for the better and the industry can now ensure higher production.

In addition to labour, there has been an improvement in the power situation also. Before emergency, the industry was subjected to frequent power cuts, often of long duration. This not only resulted in loss of production and defaults in the mills' sales commitments, but also placed additional financial burden on the industry by way of lay-off compensation to workers for the period of suspension of workers. The industry can now look forward with confidence that its production will not be interrupted by power sheddings.

Of late, the Union Government has made special efforts to remove sickness in major industries like jute, textiles and sugar industries and has appointed a high powered committee for the purpose. In the case of the jute industry, the committee has suggested that 75 per cent of the cost of new plants and machinery should be made available as soft loan for the purpose of modernisation. The committee has envisaged a five-year programme for implementing modernisation at a total cost of Rs. 168 crores. As follow-up measure, the Union

Government has recently announced the opening of the soft window by the Industrial Development Bank of India. In the circumstances, finances are not likely to pose a problem for undertaking modernisation.

Conclusion

Although the Indian jute industry is now passing through a critical phase characterised by stagnant production and sluggish exports, the problems faced by it are not unsurmountable. For a variety of reasons such as employment and foreign exchange earnings, the health of the industry is vital to the country in general and to West Bengal in particular. The task of modernisation, which had long been neglected for want of finance, is being taken up with the opening of a soft window by the Industrial Development Bank of India. The R & D. effort of the industry is also being pursued more vigorously than was the case hitherto. The Government has already initiated steps to raise more funds for R. & D. through a compulsory cess. There are indications now that even synthetic goods are not immune to inflationary pressures, nor are they overwhelmingly superior to jute goods in some applications where such superiority had been taken for granted for all these years. The price of raw jute has to be kept down in order to bring down the cost of production, at the same time keeping jute cultivation still attractive to the farmers by fetching them a fair return. In this context, efforts have to be made to raise jute yield per hectare. The need to come to an understanding with Bangladesh is of significance in the context of recapturing the lost overseas markets. The problem of low profitability of the industry cannot be solved by closing down marginal/weak units or even by pegging down production. The only way to ensure overall improvement of the industry is by undertaking an extensive programme of rehabilitation and modernisation, which alone will enable the industry to meet the growing domestic demand and also face competition in the world markets effectively.

Current Topics

Agricultural Refinance and Development Corporation: Performance during 1975-76

During 1975-76, the refinance disbursements of the Agricultural Refinance and Development Corporation (ARDC) rose sharply by 61 per cent to Rs. 171 crores from Rs. 106 crores in the previous year. During the year, all the States except Gujarat and Nagaland received increased disbursements. Since its inception, the Corporation has disbursed refinance amounting to Rs. 594 crores including Rs. 321 crores in respect of IDA-assisted projects. The largest beneficiaries of the ARDC assistance receiving more than 10 per cent each of the total disbursements since inception are Uttar Pradesh (Rs. 84 crores), Maharashtra (Rs. 68 crores) and Tamil Nadu (Rs. 62 crores). Harayana (Rs. 57 crores), Andhra Pradesh and Karnataka (Rs. 55 crores each), Punjab and Gujarat (Rs. 51 crores each) availed themselves between 8 and 10 per cent each of the total disbursements.

Disbursements

Support for minor irrigation continues to be the predominant activity of the Corporation. Disbursements of refinance for minor irrigation rose by Rs. 108 crores in 1975-76 to Rs. 446 crores and accounted for 75.2 per cent of the total disbursements of Rs. 594 crores since the inception of the Corporation. Disbursements for farm mechanisation increased from Rs. 19 crores to Rs. 65 crores during 1975-76, accounting for 10.8 per cent of the total disbursements. Schemes for land development and soil conservation are looking up and disbursements under schemes for plantation and horticulture, fisheries, dairy development, storage and market yards showed significant improvement. The ARDC's commitments and drawals up to the end of June 1976 amounted to Rs. 848 crores and Rs. 594 crores respectively, giving a ratio of 70.1 per cent between drawals and commitments.

Sixty-three member banks comprising 16 land development banks, 33 scheduled commercial banks and 14 State co-operative banks participated in the refinance programme. Land development banks continued to be the principal recipients (58%) of ARDC refinance and the amount disbursed to them rose from Rs. 77 crores in 1974-75 to Rs. 99 crores in 1975-76. During the year, disbursements to scheduled commercial banks went up from Rs. 28 crores in 1974-75 to Rs. 71 crores (41%) in 1975-76, while those to State co-operative banks decreased from Rs. 1.47 crores to Rs. 1.31 crores (1%).

During 13 years of its activities, the Corporation has assisted in bringing about 20.5 lakh hectares under multiple cropping. Lands developed under the command area of major irrigation projects and the area improved under soil conservation schemes aggregated 6.35 lakh hec-

tares. The area developed under various schemes for plantation and horticulture totalled 47,600 hectares.

The total disbursements by the Corporation since its inception represent investment at the ground level of about Rs. 750 crores, inclusive of contributions by member banks, State Governments and ultimate beneficiaries. The achievements in physical terms under the various schemes are : tubewells 2,08,800, dugwells 3,02,400 electric pumpsets/oil engines 4,80,900, lift irrigation 760 and boring and rahats 9,500. Since its inception, the Corporation assisted in bringing about 20.5 lakh hectares under multiple cropping. Lands developed under the command area of major irrigation projects and the area improved under soil conservation schemes totalled 6.4 lakh hectares. Total area developed under schemes for plantation and horticulture is 47,600 hectares.

Sanctions

Both the number of schemes sanctioned and the amount committed showed considerable increase during 1975-76. In 1975-76, 909 schemes involving ARDC's commitment of Rs. 297 crores were sanctioned as compared to 623 schemes with commitment of Rs. 204 crores in the previous year. Of the total of 909 schemes, 410 were minor irrigation schemes with a commitment involving Rs. 167 crores. Other schemes including land development and soil conservation, farm mechanisation, plantation and horticulture, poultry/sheep-breeding, fisheries, dairy development, storage and market yards and agricultural aviation numbered 499 with commitments aggregating Rs. 130 crores. State land development banks were sanctioned 256 schemes as against 116 schemes during the previous year. The commitments in regard to these were also higher at Rs. 177 crores than Rs. 115 crores in 1974-75. Scheduled commercial banks accounted for 650 schemes with commitments of Rs. 119 crores against 501 schemes with commitments of Rs. 87 crores in the previous year. Thus, these banks have been en-

larging their activities in providing term loans for schemes of agricultural development.

At the end of June 1976, ARDC had sanctioned 2,905 schemes with its own commitment of Rs. 1,147 crores. Of these, 1,071 schemes were in favour of land development banks, 1,784 were in favour of scheduled commercial banks and 50 schemes were to be implemented by State co-operative banks. The Corporation's commitments in regard to these schemes aggregated Rs. 771 crores for land development banks, Rs. 350 crores for scheduled commercial banks and Rs. 26 crores for State co-operative banks.

At the end of June 1976, the Corporation had as many as 690 schemes under consideration. Of these, 151 schemes were almost complete and the remaining 539 were either incomplete or were pending for want of additional data for processing. Of the pending schemes, 200 schemes related to the States in the less developed/underbanked areas.

Regional Imbalances

A number of measures have been taken by ARDC to promote development in less developed States, which include the opening of two consultancy service units, conducting of pre-investment surveys, formulation of specific schemes and provision of financial incentive by way of increased quantum of refinance up to 90 per cent of loan assistance for all purposes. As on June 30, 1976, the Corporation had sanctioned 2, 905 schemes in all States, with total commitment of Rs. 1,147 crores and disbursements of Rs. 594 crores. Of these, less developed/underbanked States like Uttar Pradesh, Madhya Pradesh, Bihar, Orissa, West Bengal, Rajasthan, Himachal Pradesh, Jammu and Kashmir, Assam and other North-Eastern States accounted for 1,083 schemes (37.3%), Rs. 493 crores of commitments (43.0%) and Rs. 187 crores of disbursements (31.4%). In areas where co-operative credit structure is

weak, commercial banks have been deliberately induced to undertake the lending programme to reduce the credit gap and speed up the process of development. Every district in the country except 53 out of 387 districts has one type or other of ARDC schemes sanctioned for implementation.

Small Farmers

During the year, the Corporation sanctioned 54 schemes under the aegis of Small Farmers Development and Marginal Farmers and Agricultural Labourers Agencies (SFDA/MFAL Agencies). At the end of June 1976, the total number of such schemes stood at 158 with the Corporation's commitment of Rs. 50 crores. Of these, 69 schemes are being implemented through the land development banks, 87 through the commercial banks and 2 schemes through the State co-operative banks. Purpose-wise, 86 schemes are for minor irrigation investment and the remaining 72 schemes covered diversified purposes such as dairy development (52), poultry (7), sheep breeding (3), land development (3), plantation and horticulture (6) and fisheries (1). Drawals under these schemes during the year amounted to Rs. 5.8 crores. The number of small farmer beneficiaries accommodated under ARDC schemes is between 50 and 60 per cent of the total number of loanees and the amount disbursed was around 35 per cent of the total disbursements.

IDA/IBRD Assisted Projects

During the year, three more projects for agricultural development were sanctioned with assistance from the World Bank Group. These were the Integrated Cotton Development Project, National Seed Project and Andhra Pradesh Irrigation and Command Area Development Composite Project. At the end of June 1976, 24 projects (excluding the Drought-Prone Areas Project in which no credit allocation has been made for on-farm investments) were being implemented with assistance from IDA/IBRD

for which funds are to be routed through the ARDC. These comprised 10 agricultural credit projects, 4 command area development projects, 3 dairy development projects, 2 seeds projects, 2 market yards projects, an integrated cotton development project, an apple processing and marketing project and a general line of credit to the ARDC.

Four of these projects are being assisted by the IBRD and the remaining projects are being financed by IDA. At the end of June 1976, the aggregate disbursements by the ARDC under the IDA / IBRD projects totalled Rs. 321 crores. The resultant foreign exchange accrual to the country was about $208 million. Under the general line of credit to ARDC by IDA, the Corporation has sanctioned schemes for minor irrigation with its commitment of Rs. 242 crores and for purposes other than minor irrigation, Rs. 22 crores at the end of June 1976. Disbursement under the scheme amounted to Rs. 47 crores.

So far, the IDA has sanctioned 11 (including the Gujarat Project since completed) agricultural credit projects. These envisaged financing of farm mechanisation equipment in Punjab, Gujarat, Haryana, Tamil Nadu, Andhra Pradesh and Karnataka, minor irrigation in Uttar Pradesh, Madhya Pradesh and Bihar. In the projects of Andhra Pradesh, Karnataka and Tamil Nadu and Maharashtra, besides minor irrigation investment, a land levelling programme was also included. The project in West Bengal is of an integrated nature involving, besides minor irrigation, setting up of agro-service centres, development of markets, etc. The aggregate lending programme for minor irrigation purposes in the various IDA projects was Rs. 453 crores and the amount of IDA assistance was Rs. 263 crores. Against 17,571 tractors to be financed under this programme, 11,047 tractors were financed up to the end of June 1976.

Other Special Development Projects

Some other developmental projects sanctioned by the

World Bank Group relate to command area development, dairy development, integrated cotton development and drought-prone areas programme.

Three command area development projects—two in Rajasthan and one in Madhya Pradesh—are under implementation. The fourth command area development project in Andhra Pradesh envisaging development of 72,000 hectares was sanctioned by the IBRD in June 1976.

In Rajasthan, Madhya Pradesh and Karnataka, three integrated projects for dairy development are being implemented and the banking plans for financing the dairy unions have been finalised. Two projects for market development, viz., the Bihar market yards project and Karnataka agricultural wholesale market project are under implementation. Further, two seeds projects, one in the Tarai region of Uttar Pradesh and the national seed project, were sanctioned by IBRD. The Tarai seed project contemplated land development in this region to increase the availability of high-yielding variety of foodgrains. The national seed project covers four States and would provide assistance to the seeds corporations to improve storage and marketing.

During the year, the integrated cotton development project sanctioned by the IDA envisaged all aspects relating to production of improved varieties of cotton and processing in selected areas of Punjab, Haryana and Maharashtra. Short-term credit requirements of cotton growers will be financed under this project. Thus, for the first time, the ARDC will be providing refinance against short-term credit.

The drought prone areas project, which covers six districts in all in Maharashtra, Andhra Pradesh, Karnataka and Rajasthan, envisages certain investments to be financed through the credit institutions. These include minor irrigation programme, sheep and dairy development, horticulture, fisheries, sericulture, etc., and the relative

schemes will be refinanced by the ARDC. In terms of the project agreement, the Corporation is required to prepare a banking plan covering, inter alia, the volume and type of agricultural credit required, legislative and institutional changes necessary to facilitate credit flow and the role to be played by various credit institutions in the area. The Corporation had accordingly constituted separate study teams for each State and had prepared the banking plans for the six districts.

Further, an integrated fisheries development project in Gujarat, a tree crops project in Kerala and an Eastern Region Foodgrains Project are in the pipe line.

Policy Decisions

The Corporation has decided to continue till the end of the Fifth Five Year Plan the present refinance facilities to the extent of 90 per cent of loan assistance to State land development banks under schemes for minor irrigation as against the normal 75 per cent contribution in other cases. Further, it was decided that from April 1, 1976, refinance facilities for viable agricultural development schemes sponsored under the aegis of SFDA/MFAL agencies would be made available by the ARDC to the extent of 90 per cent of the financial assistance provided by the member banks and the remaining 10 per cent will be met by the respective State Governments in the case of schemes sanctioned to State land development banks and in the case of commercial and State co-operative banks, by the banks, from their own resources. This decision was taken as it was considered necessary that the financing banks should also have a stake in the programme.

The programme of granting refinance facilities to member banks for loans granted to cultivators to enable the latter to keep deposits with the concerned State Electricity Boards for energisation of their wells under minor irrigation scheme was revised. According to the revised procedure, member banks are allowed to provide funds

for energisation of wells directly to the State Electricity Boards relating the quantum to the number of pumpsets actually energised by the State Electricity Boards under schemes for minor irrigation approved by the ARDC, but excluding those in areas covered by the programme of Rural Electrification Corporation Ltd. The quantum of loan assistance will be subject to a maximum of Rs. 4,500 for electric motor up to 5 HP on a well energised by the State Electricity Board. A higher loan may also be allowed at a higher rate not exceeding Rs. 1,000 for every increase in the horse power of the motor in slabs of 2.5 HP. The period of such loans will be 7 years, repayble in annual instalments.

One of the major constraints in command area development has been the question of financing 'ineligible' farmers for one reason or the other. The Government of India and the ARDC have now evolved a procedure by which funds may be made available to the 'ineligible' farmers through a special loan account constituted for the purpose in the ARDC. The contribution to this account will be made by the Central Government, the concerned State Government and the ARDC in the ratio of 50:25:25.

Finances

According to the recent amendments to ARDC Act, 1963, the share capital of the Corporation can be raised to Rs. 100 crores by the Reserve Bank of India with the prior approval of the Central Government.

During the year, the ARDC issued the Fifth series of shares of paid-up value of Rs. 5 crores and at the end of June 1976, the authorised share capital of the Corporation stood fully paid-up at Rs. 25 crores.

The borrowings from the Government of India, which are at present limited to the rupee equivalent of the disbursements made under the World Bank credits, stood at Rs. 250 crores at the end of June 1976.

Further, during the year, the ARDC issued IX and X series of bonds for an aggregate sum of Rs. 38.5 crores and the total market borrowings of the Corporation stood at Rs. 137.71 crores at the end of June 1976.

The Reserve Bank of India had initially sanctioned a limit of Rs. 40 crores to the Corporation under the National Agricultural Credit (Long-term operations) Fund during 1975-76 and this limit was fully utilised. Again in June 1976, an additional limit of Rs. 20 crores was sanctioned, which was also fully availed of by the ARDC. After allowing for repayments of Rs. 9.8 crores in respect of earlier loans, the balance due by the Corporation to the Reserve Bank of India stood at Rs. 138.4 crores at the end of June 1976. Further, the Corporation is also enjoying a limit of Rs. 15 crores from the Reserve Bank for short-term loans and the outstanding balance under this account was Rs. 1.7 crores as at the end of June 1976.

During the year, the repayments by the member-banks amounted to Rs. 24.59 crores as against Rs. 9.27 crores in the previous year.

Project Evaluation

During the year, the Evaluation Cell of the Corporation completed study reports in respect of two minor irrigation schemes, viz., new dugwells with pumpsets scheme in four taluks of Sholapur district (Maharashtra) and installation of shallow tubewells under Karnal I Scheme (Haryana). A quick evaluation study to assess the benefits accruing to the cultivators from minor irrigation investments under the Gujarat Agricultural Credit Project was also undertaken by the Evaluation Cell. In the context of the increasing assistance to the agricultural sector by commerical banks, the need for the banks to create within their organisation a project monitoring and evaluation cell has become urgent. For this purpose, the Corporation has suggested to the public sector banks and land development banks which have drawn sizeable re-

finance from the Corporation to set up such cells to initiate studies. During the year, the Corporation conducted, at the request of the State Bank of India, a 3-day programme of training on project monitoring for their officers and the Bank has set up project monitoring and evaluation cells at its Local Head Offices.

Legal Decisions

On Banking

Machinery Attached to the Earth—When Immovable? Rate of Interest—When Excessive?

The South Indian Bank Limited

vs.

Messrs. V. Krishna Chettiar and Bros.

AIR 1976 MADRAS 215

Contributed by N. K. Randeria

Various credit facilities were granted by the bank to the firm. In a suit filed by the bank for recovery of the amounts due to it under the said facilities, the firm did not dispute the accounts, but contended that since the machineries and movable properties were imbedded to the earth, they were deemed to be annexed to the immovable property, and in the absence of a regular instrument of mortgage, the Deed of Hypothecation, by itself, would not create a charge thereon in favour of the bank. The firm also contended that the rate of 11 per cent interest with quarterly rests charged by the bank was arbitrary and usurious.

On the question whether the machineries attached or imbedded to the earth were movable or not, the High

Court, after considering the provisions of the Transfer of Property Act and the decided cases, observed that the question was one of fact and a matter of proof. On analysing the evidence, the High Court found that the machineries in question were based on studs or platforms fixed on the earth and they were fitted by bolts and nuts. There was nothing in the evidence to indicate that these machineries were attached or imbedded to the earth for the permanent beneficial enjoyment of the land. The High Court felt that the machineries were treated by the parties as movable properties since financial aid from the bank was secured on execution of Deed of Hypothecation, in which, "hypothecated goods" were explained to mean all the machineries and other movables of any kind then fixed to the earth, installed in or kept in or that would be thereafter fixed, from time to time, or which would be brought in, installed or mounted or kept in use at the borrower's premises or workshop. On the facts, and in the absence of any contrary evidence, the High Court held that the machineries attached by bolts to special concrete bases or studs or platforms were not so imbedded for the permanent beneficial enjoyment of the mill premises and that the parties intended that the machineries were to be understood and meant as movable property rather than immovable property.

On the question whether the rate of interest at 11 per cent per annum with quarterly rests charged by the bank was usurious or excessive, the High Court noted that the interest originally agreed to on the advances to be made by the bank was only 9 per cent per annum with quarterly rests, but was increased by the bank upon the directions issued by the Reserve Bank of India, and after one of the partners of the firm had agreed to the enhancement in the rate of interest. The High Court observed, "to find whether a particular rate of interest is usurious, excessive, or unreasonable, the aggrieved party should at least let in evidence to show that such was not the rate of interest which the other banks charged under similar circumstances. There should also be telling evidence before the

court to establish that on a prima facie examination of the facts of a particular case it would ordinarily prompt the court of law to opine that the rate of interest was exhorbitant or excessive. In the instant case, the bank did not want to make unreasonable gain and make the borrowers suffer unreasonable loss, but the increase was attributed to the increased demand of the rate of interest by the Reserve Bank of India." Therefore, the Court held that the increased rate of interest was not unreasonable or excessive.

As to the question whether the interest payable with quarterly rests would automatically be assumed or presumed to be an excessive payment, the High Court observed that there was nothing in evidence to show that the interest calculated on the basis of 11 per cent per annum with quarterly rests would be unconscionably high, or would be unreasonably excessive. The High Court said, "it is only in those circumstances when the court's conscience is shaken on a prima facie understanding of the facts, that such demand for interest, in the circumstances of particular case, would place the defendants in a pitiable situation that the courts will interfere with the contract rate openly agreed to by parties." No evidence had been let in and no materials had been placed for consideration to decide whether 11 per cent interest with quarterly rests would result in a great prejudice to the firm. Having regard to the time at which the increase in the rate of interest was made and the fact that the firm did not raise any protest at any time until it was called upon to repay the principal with interest at increased rate, the objection was merely an afterthought. Even otherwise, upon the materials placed before the court, 11 per cent interest per annum with quarterly rests could not be said to be excessive, exhorbitant, or an unreasonable rate of interest.

(Shri N. K. Randeria is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I

SELECTED ASSETS AND LIABILITIES OF BANKS IN INDIA

(Rupees in crores)

	Position as on 26-11-1976	A Month ago 29-10-1976	A Year ago 28-11-1975
State Bank of India			
Aggregate Deposits:	4,022	3,873	3,122
Demand (Exclusive of inter-bank transactions)	1,598	1,546	1,323
Time (-do-)	2,424	2,327	1,799
Advances (Excluding due from banks): Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	2,938	2,798	2,218
Investments in Government Securities	989	988	772
Associate Banks			
Aggregate Deposits:	896	888	719
Demand (Exclusive of inter-bank transactions)	357	358	302
Time (-do-)	539	530	417
Advances (Excluding due from banks): Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	662	664	547
Investments in Government Securities	178	174	135
All Scheduled Commercial Banks			
Aggregate Deposits:	16,544	16,257	13,400
Demand (Exclusive of inter-bank transactions)	6,453	6,294	5,482
Time (-do-)	10,091	9,963	7,918
Advances (Excluding due from banks): Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	12,334	12,177	9,514
Investments in Government Securities	3,844	3,826	3,120

TABLE II

SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	June 1976		June 1975	
	State Bank of India	Associate Banks	State Bank of India	Associate Banks
No. of Offices	3,953	1,860	3,504	1,748
Advances				
to Agriculture:				
(i) Direct				
No. of Accounts	9,46,396	1,87,538	6,16,712	1,22,011
Outstandings	199	57	134	39
(ii) Indirect				
No. of Accounts	18,671	3,441	9,105	3,345
Outstandings	67	23	67	18
to Small Scale Industries:				
No. of units	92,838	50,648	73,302	36,791
Outstandings	326	82	289	81
to Small Business:				
No. of Accounts	1,77,861	59,572	1,10,969	33,918
Outstandings	64	16	44	12
under Differential Interest Rates Scheme:				
No. of Accounts	2,46,255	61,319	1,22,916	32,748
Outstandings	11	3	5	1
for Exports:				
Outstandings	206	48	166	38

TABLE III

SELECTED ECONOMIC INDICATORS

	Position as on 26-11-1976	A Month Ago 29-10-1976	A Year Ago 28-11-1975
	(Amounts in rupees crores)		
1. **Money Supply with the Public** ...	13,996	13,888	12,163
(a) Currency with the public ..	7,288	7,318	6,481
(b) Deposit money with the public	6,708	6,570	5,682
	September 1976	August 1976	September 1975
2. **Foreign Exchange Reserves**			
(a) SDRs* ..	18.78	18.96	22.03
(b) Gold ..	182.52	182.52	182.53
(c) Foreign Exchange ..	1,931.15	2,082.91	815.82
3. **Money Rates**	(Per cent per annum)		
(a) Bank Rate ..	9	9	9
(b) State Bank of India Advance Rate ..	14	14	14
(c) State Bank of India Hundi Rate ..	14-16	14-16	14-16
(d) Call Money Rate (Bombay) ..	9.7	10.0	7.7
(e) Bazar Bill Rate (Bombay) ..	21	21	21

*In crores of SDRs.

TABLE III

SELECTED ECONOMIC INDICATORS (Contd.)

	August 1976	July 1976	August 1975
4. Index Number of Industrial Production (1970=100)			
General Index	130.4	132.8	119.0
	Week ended 27-11-1976	Week ended 30-10-1976	Week ended 29-11-1975
5. Index Number of Wholesale Prices (1961-62=100)			
All Commodities ..	313.5	309.9	299.2
Food Articles ..	343.1	339.8	339.6
Liquor & Tobacco	332.6	340.6	322.1
Fuel, Power, Light and Lubricants	371.7	370.9	361.6
Industrial Raw Materials ..	331.2	315.6	261.5
Chemicals ..	291.0	287.9	322.6
Machinery and Transport Equipment ..	256.7	257.6	262.0
Manufactures ..	266.9	265.0	253.1
	August 1976	July 1976	August 1975
6. Consumer Price Index Number for Industrial Workers—All-India (1960=100) ..	298	297	321
7. Foreign Trade	(Rupees in crores)		
Total Imports ..	358.9	337.7	398.2
Total Exports (including re-exports) ..	361.8	369.8	368.2

ज्ञानं ज्ञेयं परिज्ञाता, त्रिविधा कर्मचोदना।

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Clubbing of Income and Wealth

S. R. Darekar

The transfer of assets without adequate consideration of any kind is frequently used as a device by the assessees either to evade or reduce the incidence of tax on their total income. Consequently, the plugging of the loopholes in Section 64 of the Income-tax Act has become a continuous process. Under Section 64 of the Act, the income of transferee under certain circumstances is considered as the income of the transferor and it is included in his income for charging purpose. The object of framing Section 64 can be understood from the following observations made by Lord MacMillan in Chamberlain vs. Inland Revenue Commissioner: "This legislation forms part of a code of increasing complexity beginning with the Finance Act 1922, Section 20, designed to overtake and circumvent a growing tendency on the part of tax-payers to endeavour to avoid or reduce tax liability by means of settlements. Stated quite generally, the method consisted in the disposal by the tax-payer of part of his property in such a way that the income should no longer be receivable by him, that at the same time he retained certain powers over or interests in the property or its income. The legislature's counter was to declare that the income of which the tax-payer had thus sought to disembarrass himself should, notwithstanding, be treated as still his income and taxed in his hands accordingly." Certain words used in Section 64 of the Act require elucidation as to their meaning.

Transfer

The word 'transfer' has been used in Section 64 in the strict sense and not in the sense of "including every means by which the property may be passed from one to another." In the case of Daddy R. D. Wadia vs. Commissioner of Income-tax, a distinction between release and transfer has

been made out stating that transfer is a bilateral act requiring two parties, whereas release being a unilateral act is not a transfer and even though the wife or the minor child of the releasor gets some property without consideration as a result of the release and earns income therefrom, Section 64 will not apply. But if there is an assignment of the life interest or the right to receive the income under a trust in favour of wife or minor children, the same being transfer, Section 64 will apply because unlike release which is a unilateral act, assignment is a bilateral act. It is well settled now that Section 64 does not stop applying because of the transformation or conversion of the transferred asset into another type or form of asset, for example, cash into shares or immoveable property.

Husband, Wife and Child

The words 'wife' and 'husband' must be taken in the primary sense which is clearly indicative of married relationship. The word wife in Section 64 does not include a woman with whom the assessee has illicit connection for however long a period, (Commissioner of Income-tax vs. Nawab Mir Barkatali Khan, 1974). Similarly, the word 'husband' must also mean lawfully wedded man. The word 'child' means a legitimate child. It includes a step child and also an adopted child but not an illegitimate child.

Property

Property includes any interest in property, moveable or immoveable, the proceeds of sale thereof and any money or investment representing the proceeds of sale thereof and where the property is converted into any other property by any method, such other property.

Adequate Consideration

It is well settled now that the question of deciding whether the consideration is adequate or not arises only if the consideration is of any value. Thereafter, the question arises whether what is received is in value adequate to the value of what is parted with. Justice Hidayatullah

observed as follows : "The words 'adequate consideration' denote consideration other than mere love and affection, which in the case of a wife may be presumed. When the law insists that there should be adequate consideration and not good consideration, it excludes mere love and affection. There may be good consideration to support a contract, but adequate consideration to avoid tax is quite a different thing. To insist on the other meaning is really to say that consideration must only be looked for, when love and affection cease to exist." Consideration to support a contract under the provisions of the Indian Contract Act is different from 'adequate consideration' under Section 64 of the Income-tax Act, 1961. The consideration that supports the transfer should be the one, the value of which can be measured in terms of money or money's worth. Therefore, where the consideration is valuable, but is not adequate, clauses of Section 64(1) dealing with transfers to the spouse, minor child, daughter-in-law or son's minor child will apply to the extent consideration is inadequate and the proportionate share of income arising out of the transferred asset equivalent to inadequate part in the total value of the assets transferred will be taxable in the hands of the transferor.

It is erroneously thought that if a guardian invests his own money in the name of his minor son/daughter, who has no independent source of income, the income derived from such investment will not be charged in the hands of the guardian (investor), but separately in the hands of minor children as it belongs to them, but in law it is not so. Under Section 64 of the Act, the whole income will be charged in the hands of the guardian whose money is invested.

Spouse Partner in a Firm

Section 64(1)(i) provides that in computing the total income of an individual, there should be included the income arising directly or indirectly to the spouse as a partner in a firm in which such individual is a partner. Where husband and wife are both partners in a firm carrying on business, the income of the spouse from the firm will

be taxed in the hands of the other spouse whose total income other than the income from such firm is more. Section 64(1)(i) applies to a firm carrying on business and therefore it does not apply to cases where the husband and wife are partners in a firm which carries on a profession. In such a case, the husband and the wife would each be assessable separately in respect of his or her share of firm's profits. Where any such income is once included in the total income of either spouse, such income arising in any succeeding year would not be included in the total income of the other spouse unless the Income-tax Officer is satisfied after giving that spouse an opportunity of being heard that it is necessary to do so.

Salary or any Other Remuneration to Spouse

Section 64(1)(ii) provides that where a spouse of an individual receives income by way of salary, commission, fees or any other form of remuneration whether in cash or in kind from a concern in which the individual has a substantial interest, such income would be clubbed with that of the individual. This clause was introduced in Section 64 by the Taxation Laws (Amendment) Act, 1975, with effect from 1st April 1976, i.e., from the assessment year 1976-77. This provision will not apply in relation to any income arising to the spouse where the spouse possesses technical or professional qualifications and the income is wholly attributable to the application of his or her technical or professional knowledge and experience. For example, if a chartered accountant carries on his profession as a sole proprietor and he employs his wife to work for him, the salary paid to the wife would not be clubbed with the income of the husband if she is also a chartered accountant, but it would be included in the income of the husband if she works for him as a secretary or stenographer. The words 'substantial interest' have been defined by explanation 2 to Section 64(1) of the Act. According to the explanation, an individual shall be deemed to have a substantial interest in the company if its equity shares carrying not less than twenty per cent

of the voting power are, at any time during the previous year, owned beneficially by such person or partly by such person and partly by one or more of his relatives. In any case other than the company, an individual shall be deemed to have a substantial interest therein if such individual by himself or along with his relatives is entitled in the aggregate at any time during the previous year to not less than twenty per cent of the profits of such concern. The word 'relative' is defined in Section 2(41) of the Act to mean the husband, wife, brother, sister or any legal ascendant or descendant of the individual.

Minor Child Admitted to Benefits of Partnership

According to Section 64(1)(iii) of the Act, where a minor is admitted to the benefits of partnership, the income of the minor will be taxed in the hands of the father or the mother whose income other than such includible income is higher than that of the other, and where any such income is once included in the total income of either parent, such income arising in a subsequent year would not be included in the total income of the other parent unless it is necessary for the Income-tax Officer to do so, after giving that parent an opportunity of being heard. It is immaterial whether the father or the mother is a partner either in the same firm or in any other firm. It is enough if the minor child is admitted to the benefits of partnership in the firm. It may be noted that where a minor married daughter is admitted to the benefits of a partnership in a firm in which her husband is a partner, her share of the firm's profits would be included in the total income of her father and not of her husband (Kumaraswamy Raddiar vs. Commissioner of Income-tax 1963). If the child attains majority in the course of the accounting year and elects to become a partner before the end of the year and under the terms of partnership the profits are to be ascertained only at the end of the year, no part, not even a proportionate part computed up to the date when the child attained majority, of the child's share of profits of that year would be includible in the father's total income.

This was decided by the Bombay High Court in the case of Bhogilal Laherchand vs. Commissioner of Income-tax 1955. The word child appearing in this clause includes a step child and adopted child but not an illegitimate child.

Assets Transferred to Spouse

Under Section 64(1)(iv) of the Act, any income that arises directly or indirectly to the spouse of an individual from the assets transferred directly or indirectly to the spouse by such individual otherwise than for adequate consideration or in connection with the agreement to live apart, is included in the total income of that individual. This clause is not applicable to the cases where the transfer is for adequate consideration and where it is in connection with an agreement to live apart. If shares are transferred to the trustees of a settlement for the benefit of the spouse, and with these shares the trustees do the business of dealing in shares, the business income would be held to arise indirectly from assets transferred. Where a house property is transferred to the spouse and the transfer is otherwise than for adequate consideration or in connection with the agreement to live apart or where a house property is transferred for inadequate consideration to a minor child not being a married daughter, the transferor is deemed under Section 27(i) of the Act to be the owner of the house property so transferred and is accordingly assessable for house property income under Section 22 of the Act. Where a wife constructs a house out of moneys gifted by her husband, the income from the house property assessable in the hands of the husband is that computed on the basis of the wife being the owner. In order to attract the application of Section 64(1)(iv), the relationship of husband and wife must subsist not only at the time of the accrual of income but also when the assets are transferred. Therefore, where assets were gifted to wife before the marriage, it was held that the provisions of Section 64 did not apply since the gifts were made at a time when the relationship of husband and wife did not subsist, though they may be made in consideration of a

promise to marry. This was held by the Supreme Court in Philip Thomas vs. C.I.T., 1963. The explanation 3, which is introduced in Section 64(1) by the Taxation Laws (Amendment) Act, 1975, applies in the cases covered by clauses (iv) and (v) only, i.e., where the assets are transferred to the spouse or the minor child. It states that where the assets transferred to the spouse or minor child are invested in any business, that part of the income from business, which bears the same proportion to the total income from such business as the value of the assets transferred as on the first day of the previous year, bears to the total investment in such business by the spouse or the minor child on that day, shall be included in the total income of the transferring spouse or the parent as the case may be. For example, if the total investment by the wife in the business on the first day of the accounting year 1975 is Rs. 60,000 out of which Rs. 30,000 are the moneys transferred by the husband, half the income of such business will be taxed in the hands of the husband by virtue of this explanation. This explanation applies to the income arising in or after the assessment year 1976-77, even if the assets from which such income arose were transferred earlier. If the transferred assets are not at all invested on the first day of the accounting year, but are invested later, this explanation will not apply. This explanation does not apply where the assets are transferred to the daughter-in-law or the son's minor child without adequate consideration. Therefore, where daughter-in-law becomes a partner with the aid of the moneys transferred by the father-in-law or the mother-in-law, the ratio propounded by the Supreme Court in the case of Prem Bhai Parekh will apply and her income from the firm will not be taxed in the hands of the transferring father-in-law or mother-in-law.

Assets Transferred to Minors

Under Section 64(1)(v) of the Act, any income that arises directly or indirectly to a minor child (not being a married daughter) of an individual from the assets transferred directly or indirectly to the minor child by such

individual otherwise than for adequate consideration, is included in the total income of that individual. Where a business is transferred as a going concern by a father to his minor sons, the income from the business coming to the share of the minor sons is taxable in the hands of the father under this clause. This clause does not apply to the cases where the transfer is for adequate consideration or where a minor child is a married daughter. These are two exceptions to the rule.

Assets Transferred to Son's Wife or Son's Minor Child

Under Section 64(1)(vi) of the Act, any income that arises directly or indirectly to the son's wife or son's minor child of an individual from the assets transferred directly or indirectly on or after the 1st day of June 1973 to the son's wife or son's minor child by such individual otherwise than for adequate consideration is added to the total income of the transferring father-in-law or mother-in-law or the transferring grand father or grand mother, as the case may be. The Taxation Laws (Amendment) Act 1975, has added this clause to Section 64(1) of the Act and it applies from the assessment year 1976-77 and applies only if the assets are transferred to the daughter-in-law or her minor child on or after the first day of June 1973. Under this clause, income is not to be taxed in the hands of the husband or the parent, as the case may be.

Assets Transferred for Immediate or Deferred Benefit of Spouse or Minor Child

Under Section 64(1)(vii) of the Act, any income arising directly or indirectly to any person or association of persons from assets transferred directly or indirectly otherwise than for an adequate consideration to the person or association of persons by such individual to the extent to which the income from such assets is for the immediate or deferred benefit of his or her spouse or minor child or both is includible in the total income of such transferring individual. Clauses (iv) and (v) of Section 64(1) apply in the case of direct or indirect transfer of assets to the spouse or a

minor child, whereas this clause applies when the transfer is not to the spouse or the minor child but to a third person for the benefit of the spouse or minor child. In this clause, the Taxation Laws (Amendment) Act 1975, has added the words directly or indirectly after the word transfer. This clause does not require that the property so transferred to any person or association of persons should ultimately vest in the spouse or the minor child. It is also not necessary that transfer should be to the spouse or minor child either immediately or ultimately. It appears that in the case of trust for the benefit of daughter-in-law or son's minor child, this clause will not apply and clause (vi) also will not apply because no assets are transferred to the daughter-in-law or son's minor child. The words "deferred benefit" mean benefit deferred to a year subsequent to the accounting year in which the income is taxable so long as it is not deferred beyond the minority of the child. This clause would apply even if the trust is for the deferred benefit of the minor and the minor gets no benefit of income under the trust in the accounting year, but it would not apply if the income during minority is to be accumulated and added to the corpus and the income from the increased corpus is to be given to the child after attaining majority. In this regard, the decision of the Supreme Court in Commissioner of Income-tax vs. Manilal Dhanji 1962 remains good law. A simple illustration of the type of cases covered by this clause would be a transfer of assets to trustees under a deed of trust for the benefit of the settler's spouse or minor children. In such a case, the settler would be taxed under this clause in respect of the income arising to the trustees.

It may be noted that where assets have been gifted to a minor child, the provisions for clubbing of income under Section 64 would apply only till the child is under 18 years. The moment the child completes 18 years, he would become major and income from the transferred assets would thereafter be treated as his own income and taxed in his hands and the provisions for clubbing would cease to apply. Similarly, the provisions for clubbing would cease

to apply where the daughter gets married during her minority. It is interesting to note that making a gift to a minor would only mean that the donor would pay gift tax on the value of assets, which would still continue to be treated as part of his wealth and income therefrom would still continue to be taxable in his hands. Although Section 64 applies to income arising from new assets into which the assets originally transferred may have been converted, it does not apply to income arising from the accumulated income or accretions to such assets. Therefore, if an individual transfers shares to his minor son, bonus shares received by the son would not be 'assets transferred' to the son but would be accretions to the assets transferred and the dividend on the bonus shares cannot be included in the father's income under Section 64(1)(v) of the Act.

Conversion of Separate Property and Income Thereof

Only a co-parcener—a male member of the Hindu undivided family—has the right to throw self-acquired property into the family hotchpot even though there was no joint or ancestral property. Under Section 64(2) of the Act, when a co-parcener of a Hindu undivided family throws after 31st December 1969 his separate property into the hotchpot of the Hindu undivided family, then from the assessment year 1971-72, (1) such throwing shall be deemed to be transfer from him to the members of the family; (2) till partition of such thrown property, the income from such property shall be deemed to arise to the throwing co-parcener and not to the family; and (3) when the thrown property has been partitioned, the income from such partitioned property received by the wife or minor child of the thrower shall be taxed in the hands of the thrower.

Transfer of Income without Transfer of Assets

Under Section 60 of the Act, all income arising to any person by virtue of any transfer, settlement, trust, covenant, agreement or arrangement from assets remaining the property of the person who made the transfer, settlement, etc., is deemed to be the income of such person and is

taxable in his hands. It is immaterial whether the transfer is revocable or not. There is no exception to this rule. It also applies to transfers effected prior to the commencement of the Act.

Revocable Transfer of Assets

Under Section 61, all income arising to any person by virtue of a revocable transfer of assets is deemed to be the income of the transferor and taxed in his hands. However, according to Section 62, the provisions of Section 61 are not applicable to any income arising to any person by virtue of a transfer of assets (i) by way of trust which is not revocable during the lifetime of the beneficiary, and, in the case of any other transfer, which is not revocable during the lifetime of the transferee, or (ii) made before the 1st April 1961, which is not revocable for a period exceeding six years, provided that the transferor does not derive any direct or indirect benefit from such income in either case. Sub-section 2 of Section 62 states that all income arising to any person by virtue of any such transfer will be chargeable to income-tax as the income of the transferor as and when the power to revoke the transfer arises. It may be noted that if there is no valid, effective and complete transfer of property or declaration of trust, the income would continue to remain that of the intending transferor or settler under the general law and could be taxable in his hands apart from the provisions of Sections 60 and 61 of the Act.

Transfer and Revocable Transfer

For the purposes of Sections 60, 61, 62 and 63, a transfer shall be deemed to be revocable if (i) it contains any provision for the transfer directly or indirectly of the whole or any part of the income or assets to the transferor, or (ii) it, in any way, gives the transferor a right to resume power directly or indirectly over the whole or any part of the income or assets. Transfer includes any settlement, trust, covenant, agreement or arrangement.

Wealth-tax : Transfer of Assets

Various clauses of Section 4 of the Wealth-tax Act, 1957, regarding clubbing of wealth and corresponding clauses of Section 64 of the Income-tax Act, 1961, for clubbing of income are almost identically worded. Section 64 taxes, inter alia, income arising from property transferred in the hands of the transferor, while Section 4 of Wealth-tax Act taxes the property transferred in the hands of the transferor. Section 4 taxes the gift, while Section 64 taxes the income from the gift. Though the assets are held by others, they are deemed to belong to the assessee and the value of such deemed assets is to be included in the net wealth of the assessee in the following circumstances:

(1) Assets held by the spouse of an individual to whom such assets have been transferred by the individual, directly or indirectly, otherwise than for adequate consideration or in connection with an agreement to live apart.

(2) Assets held by a minor child of an individual (not being a married daughter) to whom such assets have been transferred by the individual directly or indirectly otherwise than for adequate consideration.

(3) Assets held by a person or association of persons to whom such assets have been transferred by an individual directly or indirectly otherwise than for adequate consideration, for the immediate or deferred benefit of the individual or his or her spouse or minor child (not being a married daughter) or both.

(4) Assets held by a person or association of persons to whom such assets have been transferred by an individual otherwise than under an irrevocable trust.

(5) Assets transferred by an individual directly or indirectly otherwise than for adequate consideration, to son's wife or the son's minor child on or after 1st June 1973 will be included in the net wealth of the transferor from the assessment year 1976-77 and onward.

With regard to the above five items, it may be noted that (i) it is not necessary that the transferred assets should be held by the transferee on the valuation date (31st March) in the same form in which they were transferred. For example, if an individual transfers cash to his or her spouse or minor child, which is used before the valuation date for the purchase of house property, shares or securities, it would be the value of the assets so acquired which will be includible in the net wealth of the individual and not the cash originally transferred, (ii) the value of assets transferred after the end of the previous year relevant to the assessment year 1971-72 by way of gift is to be included in the net wealth of the individual from the assessment year 1972-73.

(6) From the assessment year 1976-77, where a gift of money is made by one person to another by mere book entries, the value of such gift shall be included in the net wealth of the person making the gift, unless he proves to the satisfaction of the Wealth-tax Officer that there was actual delivery of money at the time when the book entries were made.

(7) With effect from 1st April 1972, a member of a co-operative housing society to whom a building or part thereof is allotted or leased under a house building scheme of the society will be deemed to be the owner of that building or part thereof. Further, the value of such building or part for inclusion in the net wealth of the assessee will be determined after allowing deduction in respect of the value of any outstanding instalments payable by the assessee to the society towards the cost of such building or part. Accordingly, the value of the house or flat for wealth-tax purpose will be taken to be the difference between the market value of the flat, if it were free from any encumbrance and the discounted value of outstanding instalments of the amount payable by him to the society towards the cost of the building or flat. Since the member is deemed to be the owner of such house or flat, he will be entitled

to exemption up to Rs. 1,00,000 under Section 5(1)(iv) in respect of one house of his choice.

(8) For and from the assessment year 1972-73, where an individual has converted his personal property into that of a Hindu undivided family after 1969 by impressing such property with the character of joint family property or by throwing it into the common stock of the family, he will be deemed to have transferred the converted property, through the family, to the members of the family for being held by him jointly. The share in the converted property in so far as it is attributable to the interest of the individual in the property of the family, his spouse or any minor child shall be deemed to belong to the individual and will be included in the net wealth of such individual. However, with effect from the 1st April 1976, in view of deletion of the words "in so far as it is attributable to the interest of the individual in the property of the family", the whole of such converted property shall be deemed to belong to the individual from the assessment year 1976-77 and onwards. Further, if a partial or total partition takes place in the family, the converted property or any part thereof received by the spouse or minor child of the individual on such partition shall be deemed to be assets transferred indirectly by the individual to his spouse or minor child and will be included in his net wealth as if it was a transfer under the provisions of Section 4(1)(a)(i) & (ii) of Wealth-tax Act. It would make no difference to the donor in the taxation of wealth even after a gift is validly made and full gift-tax has been paid by the donor as the gifted property is included in the net wealth of the donor under Section 4 of the Wealth-tax Act, 1957.

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Cotton Textile Industry: Position and Prospects—I

Among the various industries in the organised sector in the country, the cotton textile industry ranks as the largest and oldest. The first cotton mill in India was established as early as 1818 near Calcutta. However, the vicinity of raw cotton markets, humid climate and abundance of hydro-electric power attracted the industry to Bombay, where the first mill was established in 1851. This was followed by other mills in Bombay and Ahmedabad. The prosperity of these mills was so encouraging that more and more capital and enterprise were drawn to the industry and towards the end of the last century, there were no less than 156 mills with a total complement of 36,000 looms and 4.05 million spindles. During the first and second world wars, the industry made impressive progress and experienced unprecedented boom due to restrictions on imports and growing demand for cloth in the country, both for civilian and military consumption. With 19.54 million spindles, India today ranks first in the world in terms of installed capacity. However, in terms of yarn production, it enjoys only third rank mainly due to under-utilisation of capacity and lower productivity. India occupies the third position as exporter of cotton textiles (after Japan and Hong Kong), fourth in terms of cotton consumption (after China, the U.S.A. and the U.S.S.R.). India has the largest area in the world under cotton, which is more than one-fourth

of the total world acreage. With an estimated capital investment of Rs. 270 crores, the Indian cotton textile industry provides employment to about one million persons out of a total factory labour force of about 5 million. Besides, it provides indirect employment to several millions engaged in cotton cultivation, ginning and processing of cotton, cottonseed crushing and marketing.

Despite its early start and dominant role in the organised industrial sector of the country, the cotton textile industry has been unable to maintain stability and growth. On the contrary, it was the first industry to fall sick in recent years due to the operation of a combination of adverse factors such as cost inflation, obsolete machinery, lack of financial discipline and mismanagement.

Locational Pattern

It will be seen from Table No. 1 that Tamil Nadu has the largest number of mills (214), followed by Gujarat (117), Maharashtra (107), West Bengal (41), Uttar Pradesh (36), Andhra Pradesh (34), Karnataka (33) and other States/ Union Territories (116). However, in respect of installed capacity, Maharashtra occupies the first place. While Gujarat ranks next to Maharashtra in respect of looms capacity, Tamil Nadu ranks second in respect of spindles capacity. Thus, the industry is largely concentrated in Maharashtra, Gujarat and Tamil Nadu.

Development under the Five Year Plans

The performance of the industry during the First Plan period was impressive inasmuch as it was able to exceed the target in respect of both capacity and production. In the Second Plan period, only in respect of spindleage the industry was able to exceed the target and that too marginally. In the subsequent Plans, the performance of the industry deteriorated further in the sense that the Plan targets in respect of neither capacity nor production could be achieved. One major factor responsible for the failure of the industry to achieve the targeted production was the

TABLE No. 1

Cotton Textile Industry : State-wise Break-up of Number of Mills and Installed Capacity as on 1-1-1976

State/Union Territory	Number of mills	Installed spindles (In '000)	Installed looms (Nos.)
Andhra Pradesh	34 (4.9)	580.49 (3.0)	1,246 (0.6)
Assam	2 (0.3)	43.14 (0.2)	—
Bihar	6 (0.9)	79.28 (0.4)	596 (0.3)
Gujarat	117 (16.8)	3,824.95 (19.5)	62,830 (30.2)
Haryana	11 (1.6)	251.21 (1.3)	978 (0.5)
Jammu & Kashmir	1 (0.1)	12.60 (0.1)	—
Kerala	28 (4.0)	484.54 (2.5)	1,118 (0.5)
Madhya Pradesh	24 (3.4)	724.85 (3.7)	13,005 (6.3)
Tamil Nadu	214 (30.7)	4,687.16 (24.0)	9,664 (4.6)
Maharashtra	107 (15.3)	4,898.15 (25.1)	77,457 (37.3)
Karnataka	33 (4.7)	796.14 (4.1)	6,165 (3.0)
Orissa	5 (0.7)	118.35 (0.6)	966 (0.5)
Punjab	8 (1.1)	166.09 (0.8)	1,300 (0.6)
Rajasthan	21 (3.0)	385.17 (2.0)	3,110 (1.5)
Uttar Pradesh	36 (5.2)	1,131.66 (5.8)	13,429 (6.5)
West Bengal	41 (5.9)	1,031.51 (5.3)	9,750 (4.7)
Delhi	4 (0.6)	168.25 (0.8)	3,454 (1.6)
Pondicherry	5 (0.7)	135.45 (0.7)	2,681 (1.3)
Goa	1 (0.1)	25.43 (0.1)	—
Total	698 (100.0)	19,544.42 (100.0)	2,07,749 (100.0)

(Figures in brackets indicate percentages to the total.)

Source : Handbook of Statistics on Cotton Textile Industry published by the Indian Cotton Mills' Federation.

shortage of raw cotton, production of which remained below the target in all the Five Year Plans. The progress of the industry during the Five Year Plans is shown in the following table :

TABLE No. 2

Cotton Textile Industry : Targets and Achievements under the Five Year Plans (Mill Sector only)

Items	First Plan (1955-56)		Second Plan (1960-61)		Third Plan (1965-66)		Fourth Plan (1973-74)		Fifth Plan (1978-79)	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement during the 2nd year of the Plan
1. Cotton production (Million bales)	5.4	4.5	5.5	4.1	6.1	4.5	7.4	6.6	9.0	6.9
2. Active spindles (Million)	11.29	12.05	13.62	13.66	16.50	15.99	*	18.41	23.90	18.86
3. Looms (Lakhs)	1.95	2.03	2.03	1.99	2.25	2.09	*	2.07	2.94	2.07
4. Yarn production (Million kgs.)	745	758	886	801	1,021	913	1,150	998	1,270	989
5. Cloth production (Million metres)	4,300	4,852	4,900	4,700	5,304	4,415	5,100	4,169	5,600	4,032

* Specific target not fixed.

Growth of the Organised Sector

Between 1951 and 1976 (vide Table No. 3), the total number of mills rose sharply from 378 to 698. The bulk of this growth was, however, confined to the spinning

sector of the industry where the number of mills nearly quadrupled from 103 to 409. During the period, the number of composite mills rose from 275 to 289. While the total number of spindles installed registered an increase of nearly eight and a half million, the looms installed rose by 13,000 only. Thus, while the Indian cotton textile industry accounts for 12.9 per cent of the total world spindleage, its share in the world loomage is only 7.2 per cent.

TABLE No. 3

Growth of Indian Cotton Textile Industry

	Spinning Mills		Composite Mills			Total		
As at the commencement of	No. of mills	Spindles installed (in '000)	No. of mills	Spindles installed (in '000)	Looms installed (in '000)	No. of mills	Spindles installed (in '000)	Looms installed (in '000)
1951	103	1,843	275	9,156	195	378	10,999	195
1956	121	1,857	291	10,194	203	412	12,051	203
1961	192	3,056	287	10,607	199	479	13,663	199
1966	283	4,362	292	11,756	209	575	16,118	209
1967	317	4,677	292	11,989	207	609	16,666	207
1968	346	5,053	289	12,042	207	635	17,095	207
1969	358	5,308	289	12,118	208	647	17,426	208
1970	366	5,463	290	12,205	208	656	17,668	208
1971	373	5,777	291	12,248	208	664	18,025	208
1972	379	5,852	291	12,261	208	670	18,113	208
1973	398	6,147	290	12,257	207	688	18,404	207
1974	401	6,293	288	12,196	206	689	18,489	206
1975	403	6,539	288	12,318	207	691	18,857	207
1976	409	7,114	289	12,430	208	698	19,544	208

Growth of the Decentralised Sector

Slow growth of loomage in the mill sector is the result of a deliberate policy of the Government to encourage the growth of the decentralised sector. Considering the greater employment potential of the decentralised sector, particularly its handloom segment, emphasis has been placed, since the beginning of the planning era, on the speedy growth of this sector. At present, there are over 3 million handlooms in the country and more than 10 million people

depend on this industry. The Union Government has decided to take up a comprehensive programme for the development of the handloom industry. It includes setting up of several intensive development projects and export production centres, adequate supply of inputs at reasonable prices and rationalisation of reservation policy for handlooms to give greater protection to the handloom sector.

Powerloom Sector

The origin of powerlooms is shrouded in mystery in the sense that there are no authentic records to indicate when they were first introduced in the country. Neither the locational distribution nor the pattern of growth has been uniform. According to the Powerloom Enquiry Committee (1964), the major factor behind installation of powerlooms has been the desire of the handloom weavers to improve their efficiency and reduce the strain of operation. The increase in and the geographical spread of supply of electric power together with the availability of looms discarded from the mills provided a strong base for the growth of powerlooms in certain centres. The facility to improve one's earnings by switching over from handlooms to power-operated looms involving only a relatively small capital investment naturally induced a number of better placed handloom weavers to set up powerlooms.

The growth of powerlooms has been very rapid and phenomenal in recent years. From about 27,000 in 1956,the number of powerlooms in the country is estimated to have increased to 3 lakhs in 1974.

The target of production for the decentralised sector (comprising handlooms and powerlooms) was stepped up from 1,570 million metres in 1950-51 to 4,250 million metres in 1973-74. In 1974, production of cloth in the decentralised sector stood at 3,968 million metres. A target of 4,800 million metres—3,000 million metres for handlooms and 1,800 million metres for powerlooms — has been fixed for 1978-79. As a result of the various incentives, the contribution of the decentralised sector in the total pro-

duction of cloth has increased steadily from 21.4 per cent in 1951 to 49.8 per cent in 1975. Cloth production in the decentralised sector crossed the 4,000 million metre mark for the first time in 1975 and was almost on par with that in the mill sector. Production of cloth by the decentralised sector and its share in the total production are shown in the following table :

TABLE No. 4

Decentralised Sector : Production of Cloth

(In million metres)

Year	Mill cloth	% to total production	Handloom & powerloom cloth	% to total cloth production	Total cloth production
1951	3,727	78.6	1,013	21.4	4,740
1956	4,852	74.5	1,663	25.5	6,515
1960	4,616	69.6	2,013	30.4	6,629
1965	4,587	60.0	3,056	40.0	7,643
1966	4,239	57.8	3,097	42.2	7,336
1967	4,097	56.3	3,179	43.7	7,276
1968	4,366	55.3	3,530	44.7	7,896
1969	4,168	54.1	3,538	45.9	7,706
1970	4,157	53.0	3,692	47.0	7,849
1971	3,957	53.8	3,399	46.2	7,356
1972	4,245	52.9	3,777	47.1	8,022
1973	4,169	54.1	3,602	45.9	7,771
1974	4,316	52.1	3,968	47.9	8,284
1975	4,032	50.2	4,002	49.8	8,034

Licensing Policy

The Union Government has exempted from the licensing provisions setting up of cotton spinning mills up to 50,000 spindles provided they do not require imported raw materials or imported capital goods or foreign collaboration and do not fall within the purview of the Monopolies and Restrictive Trade Practices Act. Besides, these units should fulfil the following conditions :

(a) the packings of yarn in hank form and the count-wise production should be in accordance with the policy in force and the directions issued by the Textile Commissioner in this regard from time to time,

(b) new unit should have a minimum capacity of 25,000 spindles,

(c) the unit should be located in an area other than in towns with a population of more than 10 lakhs.

Organised Sector : Production Trend

Although production of cloth in the organised sector rose appreciably from 3,727 million metres in 1951 to 4,852 million metres in 1956, it has been fluctuating erratically since then and has not yet touched that figure in the following two decades.

In spite of the set-back received in certain years, production of yarn has, by and large, maintained an uptrend mainly due to the growing demand for yarn from the decentralised sector. Thus, production of yarn increased from 591 million kgs. in 1951 to a record of 1,007 million kgs. in 1974. However, production declined to 989 million kgs. in 1975. Production of cloth and yarn since 1951 is shown in the following table :

TABLE No. 5

Cotton Textile Industry : Production of Yarn and Cloth

Year	Production of yarn (million kgs.)	Percentage variation over the previous year	Production of cloth (mill sector) (million metres)	Percentage variation over the previous year
1951	591	—	3,727	—
1956	758	+ 2.4	4,852	+ 4.2
1961	862	+ 9.4	4,701	+ 1.8
1962	860	— 0.2	4,560	— 3.0
1963	893	+ 3.8	4,423	— 3.0
1964	965	+ 8.1	4,654	+ 5.2
1965	939	— 2.7	4,587	— 1.4
1966	901	— 4.0	4,239	— 7.6
1967	896	— 0.6	4,097	— 3.3
1968	961	+ 7.3	4,366	+ 6.6
1969	951	— 1.0	4,168	— 4.5
1970	965	+ 1.5	4,157	— 0.3
1971	881	— 8.7	3,957	— 4.8
1972	972	+ 10.3	4,245	+ 7.3
1973	998	+ 2.7	4,169	— 1.8
1974	1,007	+ 0.9	4,316	+ 3.6
1975	989	— 1.8	4,032	— 6.6

Pattern of Cloth Production: Change

Over the years, a shift in the pattern of cloth production in favour of fine and superfine varieties is perceptible as seen from the following table :

TABLE No. 6

Cotton Textiles: Pattern of Cloth Production

(In million metres)

Year	Coarse and lower medium (Average count up to 25s)	Higher medium (Average count 26s-34s)	Fine and superfine (Average count 35s and above)	Total
1961	2,318 (49.4)	1,986 (42.2)	397 (8.4)	4,701 (100.0)
1966	1,850 (43.7)	1,862 (43.9)	527 (12.4)	4,239 (100.0)
1967	1,827 (44.6)	1,768 (43.2)	502 (12.2)	4,097 (100.0)
1968	1,983 (45.4)	1,822 (41.7)	561 (12.9)	4,366 (100.0)
1969	1,822 (43.7)	1,845 (44.3)	501 (12.0)	4,168 (100.0)
1970	1,687 (40.5)	1,866 (44.9)	604 (14.6)	4,157 (100.0)
1971	1,541 (38.9)	1,753 (44.3)	663 (16.8)	3,957 (100.0)
1972	1,782 (42.0)	1,917 (45.2)	546 (12.8)	4,245 (100.0)
1973	1,884 (45.2)	1,559 (37.4)	726 (17.4)	4,169 (100.0)
1974	1,826 (42.3)	1,957 (45.3)	533 (12.4)	4,316 (100.0)
1975	1,683 (41.7)	1,829 (45.4)	520 (12.9)	4,032 (100.0)

(Figures in brackets indicate percentages to the total.)

While the share of coarse and lower medium varieties in the total output of cloth declined from 49.4 per cent in 1961 to 41.7 per cent in 1975, that of fine and superfine varieties went up from 8.4 per cent to 12.9 per cent. During the same period, the share of higher medium variety in the total cloth production increased from 42.2 per cent to 45.4 per cent.

Capacity Utilisation : Low

As against an installed capacity of 188.57 lakh spindles, the number of spindles worked on January 1, 1975, was only 133.47 lakhs, which gives a capacity utilisation ratio of 70.8 per cent, which is far below the ratio of 78.0 per cent achieved in 1967.

As regards looms, installed capacity during 1975 was 206,921 looms and the actual number of looms worked was 143,381, showing capacity utilisation ratio of 69.3 per cent against 73.0 per cent in 1974.

TABLE No. 7

Cotton Textile Industry : Capacity Utilisation

As on 1st January	Spindles (In lakhs)			Looms (Numbers)		
	Installed spindles as at the commencement of the year	Spindles worked (Average of three shifts)	Capacity utilisation (%)	Installed looms as at the commencement of the year	Looms worked (Average of three shifts)	Capacity utilisation (%)
1961	136.63	104.34	76.4	198,785	136,472	68.7
1966	161.18	121.41	75.3	208,659	140,307	67.2
1967	166.66	130.03	78.0	206,807	142,001	68.7
1968	170.95	127.25	74.4	206,955	139,095	67.2
1969	174.26	127.49	73.2	207,637	139,049	67.0
1970	176.68	132.83	75.2	208,288	140,796	67.6
1971	178.76	127.77	71.5	209,021	136,688	65.4
1972	181.10	134.26	74.1	207,824	143,950	69.3
1973	184.03	134.80	73.3	206,659	151,049	73.1
1974	184.89	134.80	72.9	205,765	150,184	73.0
1975	188.57	133.47	70.8	206,921	143,381	69.3

The lower rate of capacity utilisation during 1975 was due to power cuts during the first half of the year in Tamil Nadu, Maharashtra, Uttar Pradesh, Gujarat, Karnataka and Andhra Pradesh. Although production picked up in the second half of 1975 following the improvement in power position, the loss suffered earlier could not be fully made good.

(To be concluded)

Current Topics

New Series of Index Number of Wholesale Prices

In order to take into account the structural changes which had taken place in the Indian economy during the period 1961-1971, the Government has introduced with effect from the first week of January 1977 a revised series of wholesale price index with 1970-71 as the base year in replacement of the earlier series with 1961-62 as the base year.

Changes in the Past

The index number of wholesale prices was introduced for the first time in India in January 1942 with the week ended 19th August 1939 as a base. It covered 23 commodities each having a weightage of 4. Since then there had been three revisions in the wholesale price index. The first revision was made in 1945 to cover 43 commodities with a new weighting method. The second revision, which was undertaken in 1955, covered 112 commodities and the base year was 1952-53. The third revision took place in 1969, when the base year was changed from 1952-53 to 1961-62. The present revision, which is fourth in the series, has 1970-71 as the base year and has introduced some important improvements in the index.

New Series : Coverage of Commodities

The new series covers 360 commodities as against 218 in the earlier series. The criterion adopted for the selection of non-agricultural commodities are : (a) a large number of new industrial items should be included to reflect the strides made by the country in the industrial field, (b) all the items with a total value of production of more than Rs. 1 crore as per 1965 Annual Survey of Industries, should be included and (c) items of which indigenous output was small but had substantial imports should be included.

Reclassification of Commodities

In the earlier series, the commodities were classified on the basis of the Standard International Trade Classification with certain modifications to suit the Indian conditions. The revised series has adopted the Standard Industrial Classification for bringing about greater uniformity with the classification adopted in other important indices like industrial production index and agricultural production index. The new classification aims at facilitating comparison of trends in the wholesale price index with those of comparable groups and sub-groups of other indices.

According to the new classification, the commodities have been grouped under three major heads, viz., (a) primary articles, (b) fuel, power, light and lubricants and (c) manufactured products.

The first major group, 'primary articles' has been divided into three sub-groups, viz., (a) food articles, (b) non-food articles and (c) minerals. This major group almost represents the earlier two groups, namely, 'food articles' and 'industrial raw materials' subject to minor changes. The sub-groups of the group 'food articles' of earlier classification such as (i) edible oils, (ii) sugar, gur and allied products, (iii) processed food and salt have been shown in the group 'manufactured products' as per new classification. Raw tobacco, which was previously shown under 'liquor and tobacco', has now been shown under 'non-food articles',

which represent commercial crops and other primary products which undergo further processing.

The second major group, 'fuel, power, light and lubricants', is broadly comparable with the same group of the previous series with the exception that the new series excludes caster oil and rectified spirit, which have been included under 'manufactured products'.

The last major group 'manufactured products' has been divided into eleven sub-groups which include manufactured as well as semi-manufactured products. Earlier, this major group was split only into two sub-groups, viz., (a) intermediate products and (b) finished products.

Quotations

The total number of price quotations obtained from official as well as non-official sources is 1,275 in the new series as against 767 in the earlier one. Most of the official quotations relate to new industrial items. The number of quotations for manufactured products included in the new series total 842 as compared with 404 such items in the old series. The table below shows comparative position in regard to the distribution of commodities and quotations.

TABLE No. 1

Number of Commodities and Quotations included in the Earlier Series and New Series

Groups	Earlier Series		New Series	
	No. of commodities	No. of quotations	No. of commodities	No. of quotations
1. Primary articles	61	340	80	405
(a) Food articles	31	234	39	261
(b) Non-food articles	22	92	26	114
(c) Minerals	8	14	15	30
2. Fuel, power, light and lubricants	8	23	10	28
3. Manufactured products	149	404	270	842
Total	218	767*	360	1275

*Seven quotations of the earlier index have been dropped in the new index.

Improvement in the Weighting System

Earlier, the weights for both agricultural and non-agricultural commodities were determined on the basis of the production data of one year 1961-62. Since agricultural production is subject to the vagaries of climatic conditions and hence to wide fluctuations, it is felt that production data of a single year as the basis for weight determination may not be realistic. With this end in view, the weights between agricultural and non-agricultural sectors have been apportioned on the basis of the average value of aggregate production during the three years ended 1969-70. The allocation of weights among different commodities within the agricultural sector has been done on the basis of average value of marketable surplus (including imports, import duty and excise duty, if any) during the three years ended 1969-70. However, as production data for coir fibre, soyabeans, mahua seed and tanning materials were not available, the weights of these items have been allocated on the basis of their production during 1968-69 only. As for the industrial sector, the allocation of weights to different commodities has been made on the basis of the value of production (including excise duty, value of imports and import duty, if any) during the year 1968-69. While assigning the value of production to groups, sub-groups and commodities, necessary adjustments have been made by excluding the value of by-products from the main products and including them under the appropriate industry. As regards minerals, the average of the production of three years (including imports, import duty and excise duty, if any) was taken up to the sub-group level of 'metallic and non-metallic minerals'. The weights are allocated to individual minerals within the individual sub-groups in proportion to the value estimated for 1968-69. For 'crude petroleum', the weight has been based on the basis of average production of three years ended 1969-70. The same method is followed in the case of the major group, 'fuel, power, light and lubricants' too. While the earlier series aimed at reflecting the price changes of the commodities included in the index, it did not reflect the price move-

ments of all wholesale transactions in the economy. The new series has brought about improvement in this respect and weights have been allocated to groups, sub-groups and commodity-items so that these might carry their own weights for groups and sub-groups as a whole and also reflect their respective price movements. Another basic change in the system of allocation of weights is that the value of transactions of non-selected commodity-items has been assigned or imputed to those selected items whose nature and price trends are likely to be more or less similar to the former. The transaction values of non-selected items are proportionately distributed to items under the sub-groups to which such non-selected items belong, where it is not possible to locate selected items of a similar nature. In the earlier series, 'condiments and spices', 'other ores', 'electrical machinery', 'tools and implements', 'machinery other than electrical', 'vehicles', 'iron and steel manufactures', 'fertilisers', 'paints and varnishes', 'paper and paper products', 'rubber tyres and tubes', 'other rubber products' and 'oil cakes' were treated as single commodities and weights were allocated accordingly. However, in the revised series, all identifiable items which were treated as quotations in the earlier series such as chillies, turmeric, gypsum, bauxite, electric motors, electric fans, transformers, cables and wires, machine tools, boilers, textile machinery, diesel engines, trucks, cars, steel plates, pipes, bars and rods, tin plates, etc., have been treated as separate commodities and weights have been allotted to each of them. Table No. 2 indicates the comparative weights assigned to groups in the old as well as new series.

In spite of the fact that the growth of industrial production has been higher than that of agricultural production, the percentage of weights under 'manufactured articles' has declined from 51.4 to 49.9. Consequently, the percentage of weights of 'food articles' has risen from 29.2 to 29.8. This is due to the higher rise in the prices of agricultural commodities in relation to industrial products. On the other hand, the large increases in the weights

TABLE No. 2

Group-wise Weights : Old and New Series

Group	Weights in Old series	Weights in New series
A. Primary Articles	426.0	416.7
(a) Food articles	292.0	298.0
(b) Non-food articles	130.0	106.2
(c) Minerals	4.0	12.5
B. Fuel, Power, Light and Lubricants	60.0	84.6
C. Manufactured Articles	514.0	498.7
(a) Food products	128.1	133.2
(b) Beverages, tobacco and tobacco products	13.2	27.1
(c) Textiles	138.9	110.3
(d) Paper and paper products	9.7	8.5
(e) Leather and leather products	13.8	3.8
(f) Rubber and rubber products	10.6	12.1
(g) Chemicals and chemical products	42.9	55.5
(h) Non-metallic minerals products	15.0	14.1
(i) Basic metals, alloys and metal products	66.9	59.7
(j) Machinery and transport equipment	74.2	67.2
(k) Miscellaneous products	0.7	7.2
D. All Commodities	1000.0	1000.0

of 'minerals' and 'fuel, power, light and lubricants' are due to the increase in production and inclusion of new items under these categories.

Base Year

The earlier index had 1961-62 as the base year both for weights and prices. This year was chosen as it was considered a normal year from the point of view of price trends. In pursuance of the recommendations made by the Technical Advisory Committee on Statistics and Cost of Living that common year should be adopted for all indices and since the indices of industrial production and consumer prices have already been revised with the calendar years 1970 and 1971 respectively as the base year, for the revised series

of wholesale prices index, 1970-71 has been adopted as the price base and triennium ending 1969-70 as the weight base. The adoption of three-year average for the weight base is expected to avoid distortions arising from fluctuations in the annual output of agricultural commodities. The shifting of the price base to a more recent year, namely, 1970-71, will enable the collection of price data for a large number of new items, which might otherwise not have been available for 1968-69.

Pricing System

The system of collection of prices for the new series is the same as that for the earlier series. Weekly quotations for the prescribed varieties are obtained for the purpose. Commodities are priced at producers' prices, i.e., ex-factory/ex-mine prices and selling agents' prices for imported commodities. The foodgrains are, however, priced at the first important stage of transactions after leaving the farmer. In the case of ex-warehouse sales, the prices include transportation cost from the farm, factory or mine to the warehouse. In some other cases, the delivery prices include transportation cost up to the point of consumption. In all cases, excise duty is included, but sales tax is excluded.

Method of Calculation

The new series is calculated on the principle of weighted arithmetic mean as in the earlier series. The index for sub-group, group and major group is derived as the weighted arithmetic mean of commodity indices. Likewise, the all commodities index is computed as the weighted arithmetic mean of major group indices.

Linking Factor

Any index figure of the new index when multiplied by 1·811 would give the estimate of the index of the earlier series.

Legal Decisions

On Banking

Banker and Customer—Duties of Banker

R. J. Mohamed Jacub Sahib (died) and others

vs.

Indian Bank Limited, Madras, and Another

AIR 1975 MADRAS 220

Contributed by N. K. Randeria

A sold goods to B and negotiated the documents through Indian Bank. B cleared the documents and took delivery of the goods. Although A received the price of the goods, he did not receive 'C' form which was delivered by B to State Bank at the time of clearance of documents. In the absence of 'C' form, A had to pay sales-tax at the rate of 7 per cent instead of at the rate of 1 per cent. Before the appellate Assistant Commissioner, A had tried to furnish the necessary evidence to show that he did obtain the 'C' form, and, as required by the Assistant Commissioner, A did produce a copy of the triplicate of the 'C' form. However, the Assistant Commissioner held that was not sufficient for giving A relief regarding tax payable by him. In the suit filed by A against Indian Bank and State Bank, A claimed a sum of Rs. 900 and odd as and by way of damages, being the difference between

7 per cent and 1 per cent of the tax paid by him, due to failure of both the banks to deliver 'C' form.

The High Court referred to the decision in Kesharichand vs. Shillong Banking Corporation reported in AIR 1965 Supreme Court 1711, in which it was held that the banker was bound to act according to the directions given by the customer, and, in the absence of such directions, according to the usage prevailing at the place where the banker conducted his business and applicable to the matter in hand; and the banker was also bound to use reasonable skill and diligence in his work. The High Court observed that, in the absence of any evidence, it was not possible to hold that, in the instant case, the banks had taken all the reasonable care in the delivery of 'C' form to A. The High Court, therefore, held that A was entitled to claim damages.

On the question of mitigation of damages, the High Court rejected the argument that A could have obtained a duplicate 'C' form and avoided paying higher rate of tax, on the ground that A had, as desired by the Assistant Commissioner, obtained a copy of the triplicate of the 'C' form and produced the same before the said officer. Under the circumstances, the High Court was unable to hold that A had failed to discharge his duty in mitigating the damages.

The High Court quoted with approval the following paragraph appearing on page 145 in Mayne and McGregor on Damages :

> "Although the plaintiff must act with the defendant's as well as with his own interest in mind, he is only required to act reasonably and the standard of reasonableness is not high in view of the fact that the defendant is an admitted wrong doer."

The High Court also quoted with approval the following observations made by Lord Macmillan in Banco de Portugal vs. Waterlow :

" Where the sufferer from a breach of contract finds himself in consequence of that breach placed in a position of embarrassment the measures which he may be driven to adopt in order to extricate himself ought not to be weighed in nice scales at the instance of the party whose breach of contract has occasioned the difficulty. It is often easy after an emergency has passed to criticise the steps which have been taken to meet it, but such criticism does not come well from those who have themselves created the emergency. The law is satisfied if the party placed in a difficult situation by reason of the breach of a duty owed to him has acted reasonably in the adoption of remedial measures and he will not be held disentitled to recover the cost of such measures merely because the party in breach can suggest that other measures less burdensome to him might have been taken."

In the result, the suit was decreed with costs as against Indian Bank, but was dismissed as against State Bank, as there was no privity of contract found between A and the State Bank because Indian Bank had acted through State Bank merely for the purpose of negotiating the documents.

(Shri N. K. Randeria is the Law Officer at the Bank's Bombay Local Head Office.)

Statistics

TABLE I

SELECTED ASSETS AND LIABILITIES OF BANKS IN INDIA

(Rupees in crores)

	Position as on 31-12-1976	A Month ago 26-11-1976	A Year ago 26-12-1975
State Bank of India			
Aggregate Deposits :	4,036	4,022	3,102
Demand (Exclusive of inter-bank transactions)	1,618	1,598	1,297
Time(-do-)	2,418	2,424	1,805
Advances (Excluding due from banks): Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	3,092	2,938	2,318
Investments in Government Securities	1,013	989	773
Associate Banks			
Aggregate Deposits:	905	896	719
Demand (Exclusive of Inter-bank transactions)	361	356	297
Time (-do-)	544	540	422
Advances (Excluding due from banks): Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	708	663	577
Investments in Government Securities	186	178	135
All Scheduled Commercial Banks			
Aggregate Deposits:	17,132	16,544	13,628
Demand (Exclusive of inter-bank transactions)	6,763	6,453	5,602
Time (-do-)	10,369	10,091	8,026
Advances (Excluding due from banks): Loans, Cash Credits & Overdrafts, Inland and Foreign Bills purchased and discounted, etc.	12,909	12,334	9,874
Investments in Government Securities	3,874	3,844	3,145

TABLE II

SELECTED BUSINESS ACTIVITIES

(Amounts in crores of rupees)

	September 1976		September 1975	
	State Bank of India	Associate Banks	State Bank of India	Associate Banks
No. of Offices	4,060	1,882	3,587	1,770
Advances				
to Agriculture :				
(i) Direct				
No. of Accounts	10,80,176	2,14,695	6,91,285	1,45,810
Outstandings	227	63	151	45
(ii) Indirect				
No. of Accounts	18,120	4,193	11,258	3,259
Outstandings	72	25	71	19
to Small Scale Industries :				
No. of units	1,03,416	48,601	76,193	36,918
Outstandings	333	85	300	82
to Small Business :				
No. of Accounts	2,06,806	72,924	1,21,714	37,663
Outstandings	71	19	47	12
under Differential Interest Rates Scheme :				
No. of Accounts	3,14,291	79,499	1,44,299	36,006
Outstandings	14	3	6	1
for Exports :				
Outstandings	200	47	175	36

TABLE III

SELECTED ECONOMIC INDICATORS

	Position as on 31-12-1976	A Month Ago 26-11-1976	A Year Ago 26-12-1975
	(Amounts in rupees crores)		
1. Money Supply with the Public	14,446	14,030	12,280
(a) Currency with the public ..	7,396	7,294	6,476
(b) Deposit money with the public	7,050	6,736	5,804
	December 1976	November 1976	December 1975
2. Foreign Exchange Reserves			
(a) SDRs*	18.91	19.68	21.20
(b) Gold	182.52	182.52	182.53
(c) Foreign Exchange	2,298.50	2,220.94	754.26
	October 1976	September 1976	October 1975
3. Money Rates	(Per cent per annum)		
(a) Bank Rate ..	9	9	9
(b) State Bank of India Advance Rate ..	14	14	14
(c) State Bank of India Hundi Rate	14-16	14-16	14-16
(d) Call Money Rate (Bombay) ..	12.5	9.7	8.7
(e) Bazar Bill Rate (Bombay) ..	21	21	21

*In crores of SDRs.

TABLE III

SELECTED ECONOMIC INDICATORS (Contd.)

	September 1976	August 1976	September 1975
4. Index Number of Industrial Production (1970=100)			
General Index	128.9	130.4	120.2
	Week ended 25-12-1976	Week ended 27-11-1976	Week ended 27-12-1975
5. Index Number of Wholesale Prices (1961-62=100)			
All Commodities ..	315.8	313.5	291.1
Food Articles ..	344.3	343.1	320.3
Liquor & Tobacco	329.4	332.6	323.4
Fuel, Power, Light and Lubricants	371.9	371.7	367.7
Industrial Raw Materials ..	341.6	331.2	256.8
Chemicals ..	291.5	291.0	322.5
Machinery and Transport Equipment ..	257.4	256.7	259.1
Manufactures	268.8	266.9	253.5
	September 1976	August 1976	September 1975
6. Consumer Price Index Number for Industrial Workers—All-India (1960=100) ..	302	298	319
7. Foreign Trade	(Rupees in crores)		
Total Imports ..	394.4	358.9	460.2
Total Exports (including re-exports) ..	388.1	361.8	289.9